

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF MUSKEGON	County MUSKEGON
Audit Date 12/31/05	Opinion Date 3/10/06	Date Accountant Report Submitted to State: 4/12/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).	✓		

Certified Public Accountant (Firm Name)

Brickley DeLong, PLC

Street Address

500 Terrace Plaza, P.O. Box 999

City

Muskegon

State

MI

ZIP

49443-0999

Accountant Signature

Brickley DeLong, PLC

Date

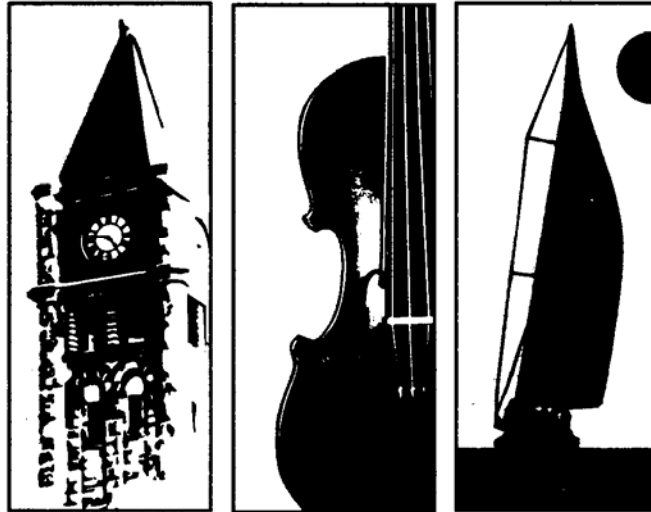
4/12/06

City of Muskegon,
Michigan

Comprehensive Annual Financial Report

For The Year Ended December 31, 2005

MUSKEGON



West Michigan's Shoreline City

**CITY OF MUSKEGON,
MICHIGAN**

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2005**

Prepared By

FINANCIAL SERVICES DIVISION

**Timothy Paul
Director of Finance**

**Elizabeth Lewis
Assistant Finance Director**

**Kenneth Grant
Income Tax Administrator**

**Derrick Smith
City Treasurer**

**James Maurer
Information Systems Director**

**Kathy Coleman
Matt Lee**

City of Muskegon

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Affirmative
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FAX (231)722-
1214

Cemetery
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FAX (231)726-
5617

City Manager
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FAX (231)722-
1214

Civil Service
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FAX (231)724-
4405

Clerk
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FAX (231)724-
4178

Comm. &
Neigh. Services
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FAX (231)726-
2501

Finance
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FAX (231)724-
6768

Fire Department
(231)724-6792
FAX (231)724-
6985

Income Tax
(231)724-6770
FAX (231)724-
6768

Inspection
Services
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4371

Leisure Services
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FAX (231)724-
1196

Mayor's Office
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1214

Planning/Zoning
(231)724-6702
FAX (231)724-
6790

Police
Department
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5140

Public Works
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4188

Treasurer
(231)724-6720
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6768

MUSKEGON



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March 10, 2006

Honorable Mayor and Members of the
City Commission
City of Muskegon
Muskegon, Michigan 49443

Ladies and Gentlemen:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) for the City of Muskegon, Michigan, for the year ended December 31, 2005. This report includes the City's audited financial statements in accordance with the requirements of state law. The financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP), and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This annual report is formatted to comply with the financial reporting model developed by the Government Accounting Standards Board (GASB) Statement 34.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with the financial statements. The City of Muskegon's MD&A can be found immediately following the independent auditor's report.

The City is reporting – for the first time in the 2005 CAFR - historic infrastructure and related depreciation costs prior to January 1, 2002 as required by GASB 34. Also in the 2005 CAFR, the City has elected to early implement the requirements of GASB statements 43 and 45 – “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” The City has prefunded its postemployment benefit obligations for several years and can readily meet the new accounting and reporting standards.

The Comprehensive Annual Financial Report is prepared by the City's Finance Department and responsibility for both the accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operation of the City as measured by the financial activity of its various funds and component units; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's finances have been included. Brickley DeLong,

MUSKEGON



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P.L.C., Certified Public Accountants, performed the independent audit of all accounts of the City as required by state law and their report and unqualified opinion is presented as the first component of the financial section of this report.

THE CITY AND THE REGION

The City of Muskegon is located in Western Michigan on the shores of Lake Michigan. The City covers eighteen square miles and, with a population of 40,105, is the largest city on the eastern shore of Lake Michigan. The City is located in Muskegon County and is part of the Muskegon-Norton Shores MSA. The community boasts many exciting attractions:

- Places Rated Almanac has ranked the area No. 3 in the fun and recreation category.
- The community has both a professional hockey team (UHL Muskegon Fury) and a professional basketball team (CBA Michigan Mayhem).
- Michigan Adventure Amusement Park, located north of the city, had its best summer ever in 2005 as attendance at the park rose to 550,000 visitors, an 18 percent increase. The amusement park will likely attract more visitors next year, when it opens its new \$6 million water ride, "the Grand Rapids."
- Muskegon's Pere Marquette beach has been nationally recognized as one of the best beaches in the nation by USA Today and was the only beach in the state to receive and maintain the Blue Wave Certification by the Clean Beaches Council. The Blue Wave certification identifies the nation's cleanest, safest and most environmentally well-managed beaches. The Detroit News voted Muskegon's Beaches #1 as the "Best Place to Run Sand Between Your Toes".
- Muskegon is the cultural hub for West Michigan with many museums and live performances. The Muskegon Museum of Art has the third best art collection in the Midwest, and the Muskegon County Museum provides insight into the area's history. The former residences of Muskegon's lumber barons, Charles H. Hackley and Thomas Hume, proudly display the glory of the Victorian ages. The Fire Barn Museum takes visitors back to a 1890s Muskegon Fire Station. The West Shore Symphony and Muskegon Civic Theater bring the stage of The Frauenthal Center for the Performing Arts to life throughout the year. The Great Lakes Naval Memorial and Museum allows visitors to step back in time and tour the USS Silversides, a surviving World War II submarine.

The City operates under a Commission-Manager form of government and provides the full range of traditional municipal services. These include police and fire protection, parks and recreation activities, public works operations, water and sewer services, parking facilities, solid waste collection, community development and general administrative support services. The City also provides treated water to a number of surrounding communities on a wholesale basis.

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COMPONENT UNITS

The City has three discretely presented component unit types. These entities are discretely presented in the financial statements as the governing boards of the component units are substantially the same as the City's governing board:

- The Downtown Development Authority (DDA) which exists primarily for the purpose of financing redevelopment activities in the City's downtown area. The DDA has issued bonds that are repaid through tax increment revenues generated by development within the Authority's boundaries.
- The Tax Increment Finance Authority (TIFA), which exists primarily for the purpose of financing redevelopment activities in a sub-section of the City's downtown area. The TIFA generates tax increment revenues through development within the Authority's boundaries.
- The Local Development Finance Authority issues bonds for development activities in the City's industrial park and high-tech park areas. Bonds are repaid through tax increment revenues generated by development within the Authority's boundaries. The City has created three separate local development finance authority districts under the aegis of the Local Development Finance Authority (LDFA).

LOCAL ECONOMIC CONDITION AND OUTLOOK

Muskegon is fortunate to have a diverse local economy. The manufacturing sector is strong in the areas of aerospace, chemicals, plastics, metals and castings, office furniture and automotive parts. The City of Muskegon also benefits from being home to large government, corrections, healthcare, and educational employers. Local income tax withholdings remitted by these employers help provide stability to City finances in times of economic weakness.

The downturn in Michigan's manufacturing economy has impacted Muskegon, but not to the extent it has other Michigan communities. According to the W.E. Upjohn Institute, projections "indicate solid growth ahead for the (Muskegon) MSA. Total employment is expected to rise 1.1 percent in 2006 and 1.3 in 2007. Goods producing should increase 0.5 percent and 0.6 percent in '06 and '07 respectively, and job increases by service providers should rise 1.5 percent in 2006 and 1.6 percent in 2007."

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Among the City's major initiatives and accomplishments in 2005 were the following:

- A \$10.6 million cleanup of the contaminated Ruddiman Creek and Lagoon progressed during the year. The cleanup is being funded by federal and state sources and involves the dredging and removal of 80,000 cubic yards of contaminated sediment. After the cleanup, the creek and pond

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water flow patterns will be restored, followed by replanting of native species of flowers, trees, and grasses.

- The high-speed cross-lake ferry service linking Muskegon with Milwaukee, Wisconsin completed a successful second year of operations. More than 110,000 passengers rode the ferry in 2005.
- The Art Works residential apartments were opened in downtown. This development is a re-use of an obsolete industrial building and includes 26 loft-style apartments. The units provide space for artists to work and display their projects
- Work continued on the conversion of a one-million square foot former office equipment manufacturing facility into loft condominiums. The Water Mark now has 53 residential units completed as well as a commercial space component. Future plans call for more residential units being developed with lakefront views.
- A new 25,000 square foot downtown bank and office building opened for business in 2005. A second 25,000 square foot law office building is under construction and will open in June 2006. Both are situated along the new \$11 million Shoreline Drive highway which was completed in 2004. Additional waterfront lots abutting the new highway will be developed in the next few years.
- Work began on streets and other infrastructure for the former Downtown Mall property. This 23-acre site in the center of the city will be redeveloped as mixed-use residential and commercial site. The Downtown Muskegon Development Corporation is spearheading this effort and the City and County have assisted through the granting of a tax-free "renaissance zone" status and through financial participation, primarily in the form of state and federal grants.

OTHER INFORMATION

INTERNAL ACCOUNTING CONTROLS

The City's management is responsible for establishing and maintaining an internal control structure that is designed to ensure adequate protection of the City's assets from loss, theft, or misuse, and adequate accounting data to allow for preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the costs of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.



BUDGETARY CONTROL

Budgetary control is maintained through an annual budget resolution passed by the City Commission. Budgetary control at the functional level is maintained by review of estimated expenditures prior to making purchases. Purchases that result in over expenditure of budget levels are not made until additional appropriations or budget changes are processed to make funds available.

Encumbrances are not recorded in the City's funds. The City does, however, utilize an informal monitoring system to facilitate budgetary control over proposed purchases. Essentially, this system entails the use of on-line budgetary information that details year-to-date "actual versus budgeted" expenditure comparisons by budget category. This information is accessible to appropriate personnel to enable them to ascertain the budget status of an expenditure category prior to authorizing additional purchases.

DEBT ADMINISTRATION

At December 31, 2005, the total of City bonds and contractual debt outstanding (including discretely presented component unit debt) was \$40,789,817 as compared to \$37,220,322 at December 31, 2004. During the year, the City drew \$5,416,234 through the state's low-interest Drinking Water Revolving Fund to finance water filtration plant improvements. In addition, the following new debt obligations were incurred:

- \$456,076 Urban Land Assembly (ULA) loan through the State of Michigan. The loan carries zero percent interest and will be used to finance downtown infrastructure improvements.
- \$605,824 installment purchase agreement for purchase of two new fire trucks;
- \$459,539 as the city's initial share of county-issued debt to fund improvements to the regional wastewater treatment system.

During the year, Standard & Poor's affirmed the City's general obligation debt rating of **A**.

CASH MANAGEMENT AND INVESTMENTS

Temporarily idle cash from the City's various funds is invested through management of a common pooled cash and investments system. Maturity of investments are timed to meet the City's cash needs. Investment instruments generally consisted of U.S. Treasury Bills and Notes, government agency securities, high quality commercial paper and liquid money-market funds. Daily liquidity needs are managed by investments in liquid short-term funds of all cash not needed in the common checking account to cover checks and other debits presented to the bank for payment that day. The City has contracted with MBIA Municipal Investors Service Corporation to provide full-time, non-discretionary management of the City's operating funds portfolio.

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PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The City of Muskegon sponsors two locally-administered defined benefit pension programs: the *Police and Fire Retirement System* for uniformed police and fire personnel and the *General Employees' Retirement System* for all other full-time employees. Each year an independent actuary engaged by the respective pension boards calculates the annual contributions that the City must make to ensure the retirement systems are able to meet current and future obligations. Both of the City's retirement systems are more than fifty years old and the City has a longstanding policy of fully funding each year's contribution requirements as determined by the actuary.

The City also provides post-retirement health benefits for retirees and their dependents. Since 1987, the City has also had an actuarial valuation of its post employment healthcare obligation performed each year and has followed a program of prefunding the obligation in the same manner as the pension obligations. GAAP does not currently require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

RISK MANAGEMENT

During 2005, the City continued participation in the Michigan Municipal Risk Management Authority (MMRMA), an intergovernmental cooperative self-insurance program. The MMRMA offers secure liability and property insurance coverage with premium stability and broad coverage at a competitive price. The City is insured up to \$15 million with a \$100,000 deductible per occurrence for general, auto, public official and law enforcement liability. Since the City began participating in the MMRMA program in March 1986, total incurred losses and expenses (exclusive of reinsurance recoveries) have been \$7,553,497.

SINGLE AUDIT

The City is required to have an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-Profit Organizations". Information related to the single audit, including the schedule of federal awards, findings and questioned costs, and auditors' reports on internal control over financial reporting and compliance with certain laws, regulations and grants are included herein. The financial activities related to the single audit requirements, such as the Community Development Block Grant Program, are also included in this financial report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Muskegon for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2004. This was the twentieth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently

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organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report could not be accomplished without the dedicated and efficient services of the staff of the Financial Services Division and the Muskegon County Print Shop. We would also like to thank the members of the City Commission for their continued interest and support in conducting the financial affairs of the City in a responsible and progressive manner and for their tireless efforts in working for the betterment of the Muskegon community.

Respectfully submitted,

A handwritten signature in cursive script, reading "Bryon L. Mazade".

Bryon L. Mazade
City Manager

A handwritten signature in cursive script, reading "Timothy J. Paul".

Timothy J. Paul
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Muskegon,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



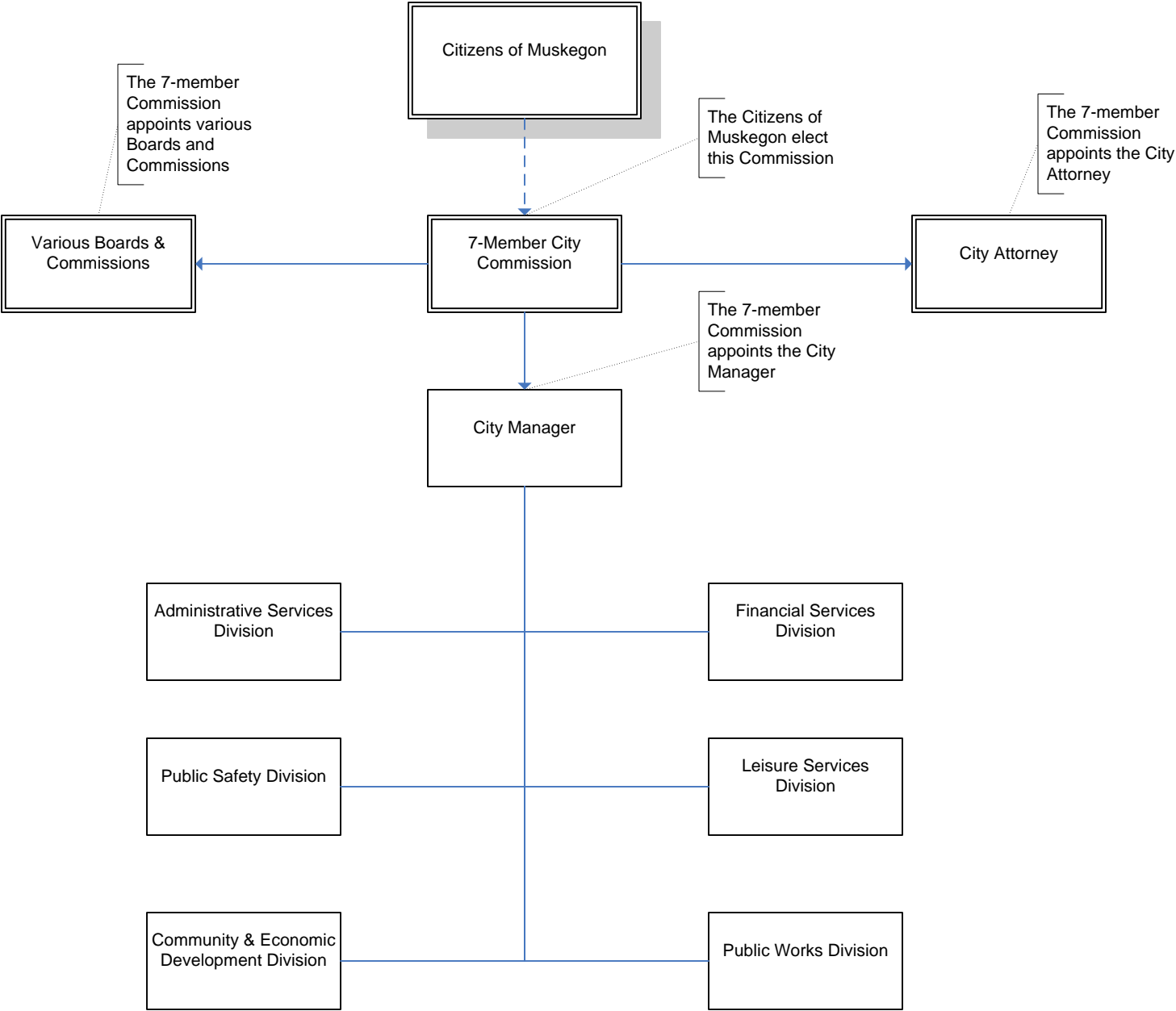
Carla E. Perry

President

Jeffrey R. Emer

Executive Director

City Of Muskegon Organizational Chart



**CITY OF MUSKEGON, MICHIGAN
LIST OF PRINCIPAL OFFICIALS**

December 31, 2005

ELECTED OFFICIALS

Mayor-Commissioner. Steve Warmington
At Large

Vice Mayor-Commissioner. Stephen J. Gawron
At Large

Commissioner. Chris Carter
Ward 1

Commissioner. Clara Shepherd
Ward 2

Commissioner. Lawrence O. Spataro
Ward 3

Commissioner. Kevin Davis
Ward 4

Commissioner. Sue Wierengo
At Large

APPOINTED OFFICIALS

City Manager. Bryon L. Mazade

City Attorney. John C. Schrier

Director of Finance. Timothy J. Paul

FINANCIAL SECTION

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

March 10, 2006

City Commission
City of Muskegon
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Muskegon, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 19 - 29 and 78 - 84 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

City Commission
March 10, 2006
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Muskegon. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brickley DeLong, P.C.

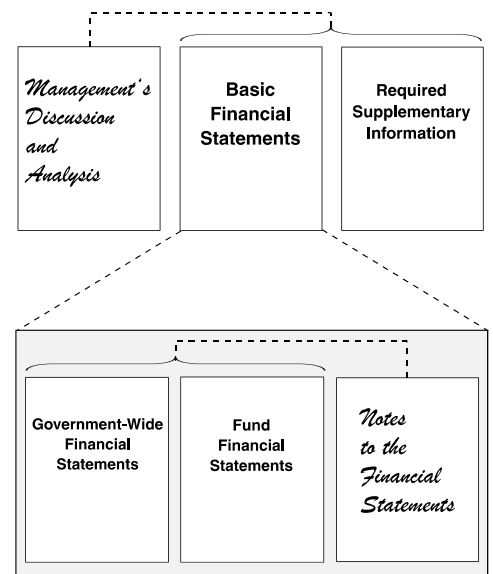
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Muskegon's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2005. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$124,580,420 at December 31, 2005, an increase of \$30,220,276 (33.1%) over the prior year. Most of this increase (\$22,239,499) is attributable to reporting, for the first time, historic infrastructure and related depreciation costs prior to January 1, 2002 as required by GASB 34. Of the total net assets, \$14,475,052 (11.6%) was unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.
- Also in the 2005 CAFR, the City has elected to early implement the requirements of GASB statements 43 and 45 – "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The City has prefunded its postemployment benefit obligations for several years and can readily meet the new accounting and reporting standards.
- During the year, the City's total expenses for both governmental and business-type activities were \$41,263,030, an increase of \$3,304,905 (8.7%) from 2004. Of the total 2005 expenses:
 - \$16,479,452 (40%) was paid through direct charges (such as water fees) to benefiting parties. In 2004, 38% of total expenses were paid from direct charges indicating increased reliance on direct fees and charges;
 - \$12,012,152 (29%) was paid by grants and contributions, primarily from the state and federal governments. In the prior year, the share of expenses paid from this source was 33% indicating declining support from grant and contribution sources; and
 - The remaining portion of total costs was paid from state shared revenues, local income and property taxes, and other locally generated revenues.
- The City's general fund reported a fund balance of \$2,519,605, an increase of \$74,414 over the prior year. The City also maintained a budget stabilization (or "rainy day") fund that reported a fund balance of \$1.35 million at December 31, 2005, an increase of \$100,000 from 2004.

Figure A-1, Required Components of the City's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting individual City operations in greater detail than the government-wide statements.
 - *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains available for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about activities the City operates *like private businesses*.
 - *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include detailed notes that explain some of the information in the financial statements and provide additional data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial

Figure A-2. Major Features of the City's Government-Wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses.	Instances in which the City is the trustee or agent for someone else's resources
Required financial statements	• Statement of net assets	• Balance sheet	• Statement of net assets	• Statement of fiduciary net assets
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's overall financial health or *position*. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. However, to assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements include not only the City of Muskegon itself (known as the *primary government*), but also legally separate *component units* for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as general government, public safety, highways and streets, sanitation, economic development, parks and recreation, and interest on long-term debt. Income taxes, federal grants, property taxes and revenues from the State of Michigan finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's major *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law or other legal requirements.
- The City Commission establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that

can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps the user determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page of the governmental funds statements that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. The City uses three proprietary funds: water, sewer, and marina. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- We use *internal service funds* to report activities that provide supplies and services for the City's other programs and activities.
- *Fiduciary funds*—The City is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.
- *Component units* – Finally, the City of Muskegon's Comprehensive Annual Financial report includes five component units: the Downtown Development Authority (DDA), the Tax Increment Finance Authority (TIFA) and, three Local Development Finance Authorities (LDFAs). Component units are separate legal entities for which the City of Muskegon has some level of financial accountability. The component units of the City exist primarily for the issuance and repayment of debt to finance projects in specific areas of the City. Accordingly, they are discussed below under the *Capital Assets and Debt Administration* heading.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The Statement of Net Assets provides an overview of the City's assets, liabilities and net assets. Over time this can provide a good indicator of the City's fiscal health. A summary of the City's net assets follows:

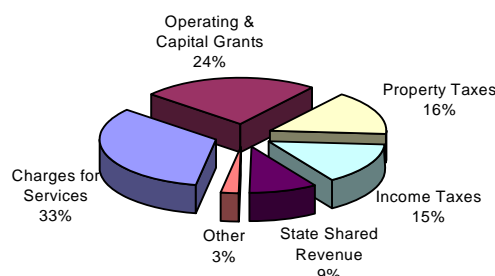
City's Net Assets
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2005-2004
Current and other assets	\$22,734	\$28,758	\$14,843	\$13,645	\$37,577	\$42,403	-11.4%
Capital assets	75,845	46,420	56,744	52,488	132,589	98,908	34.1%
Total Assets	98,579	75,178	71,587	66,133	170,166	141,311	20.4%
Long-term liabilities	5,738	7,389	24,001	22,282	29,739	29,671	0.2%
Other liabilities	12,490	14,508	3,357	2,772	15,847	17,280	-8.3%
Total Liabilities	18,228	21,897	27,358	25,054	45,586	46,951	-2.9%
Net Assets							
Invested in capital assets, net of related debt	67,120	40,664	36,743	31,609	103,863	72,273	43.7%
Restricted	5,420	5,210	822	822	6,242	6,032	3.5%
Unrestricted	7,811	7,407	6,664	8,648	14,475	16,055	-9.8%
Total Net Assets	\$80,351	\$53,281	\$44,229	\$41,079	\$124,580	\$94,360	32.0%

The total net assets of the City were \$124,580,420 as of December 31, 2005. This represents an increase of \$30,220,276 over the reported net assets for the prior year. Most of this increase (\$22,239,499) is attributable to reporting – for the first time - historic infrastructure and related depreciation costs prior to January 1, 2002 as required by GASB 34. The increase in net assets resulting from 2005 operations was \$7,980,777 and is explained below.

Changes in net assets. The City's total revenues were \$49,243,807. A significant portion (33%) of the City's revenue stream came from charges to users of specific services such as water or sewer (See Figure A-3). Another twenty-four percent came from various grants from the state and federal governments and thirty-one percent was from local property and income taxes. The remainder was comprised of state-shared revenues (9%) and various other sources such as interest income.

Figure A-3
City of Muskegon
Sources of Revenue for Fiscal Year 2005



The total cost of all City programs and services during 2005 was \$41,263,030, representing an increase of \$3,304,905 from 2004. Seventy-nine percent of these costs were for governmental activities such as police and fire protection, streets, parks, and general administration. The remaining twenty-one percent represents business-type activities operated by the City, specifically, for water, sewer and marina operations.

The difference between the City's total revenues and expenses (\$7,980,777) represents the increase in total net assets for 2005. The following table (*Changes in City's Net Assets*) further breaks down the change in total net assets into year-to-year changes in individual revenue and expense categories:

Changes in City's Net Assets
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2005-2004
Program revenues							
Charges for services	\$5,169	\$5,043	\$11,310	\$9,328	\$16,479	\$14,371	14.7%
Operating grants and contributions	6,017	6,009	-	-	6,017	6,009	0.1%
Capital grants and contributions	5,894	5,786	100	658	5,994	6,444	-7.0%
General revenues							
Property taxes	7,670	6,962	-	-	7,670	6,962	10.2%
Income taxes	7,238	7,327	-	-	7,238	7,327	-1.2%
State shared revenues	4,593	4,645	-	-	4,593	4,645	-1.1%
All other	1,114	309	138	52	1,252	361	246.8%
Total revenues	37,695	36,081	11,548	10,038	49,243	46,119	6.8%
Governmental activities expenses							
Public representation	885	867	-	-	885	867	2.1%
Administrative services	804	1,132	-	-	804	1,132	-29.0%
Financial services	1,872	1,809	-	-	1,872	1,809	3.5%
Public safety	12,482	12,164	-	-	12,482	12,164	2.6%
Public works	2,854	2,848	-	-	2,854	2,848	0.2%
Highways, streets and bridges	5,910	3,880	-	-	5,910	3,880	52.3%
Community and economic development	3,693	2,653	-	-	3,693	2,653	39.2%
Culture and recreation	2,505	2,468	-	-	2,505	2,468	1.5%
General administration	1,608	1,725	-	-	1,608	1,725	-6.8%
Interest on long-term debt	171	193	-	-	171	193	-11.4%
Business-type activities expenses							
Water	-	-	4,181	4,123	4,181	4,123	1.4%
Sewer	-	-	3,953	3,745	3,953	3,745	5.6%
Marina	-	-	344	352	344	352	-2.3%
Total expenses	32,784	29,739	8,478	8,220	41,262	37,959	8.7%
Change in net assets before transfers	4,911	6,342	3,070	1,818	7,981	8,160	-2.2%
Transfers	(80)	(142)	80	142	-	-	-
Change in net assets	4,831	6,200	3,150	1,960	7,981	8,160	-2.2%
Net assets at beginning of year	53,281	47,081	41,079	39,119	94,360	86,200	9.5%
Restatement at January 1	22,239	-	-	-	22,239	-	-
Net assets at end of year	\$80,351	\$53,281	\$44,229	\$41,079	\$124,580	\$94,360	32.0%

Net assets for governmental activities increased \$4,831,277 primarily due to a one-mill increase in property taxes coupled with continued tight cost controls. Business-type activities saw \$3,149,500 increase due to higher water rates and a dry summer that resulted in higher than normal use of water for lawn-sprinkling. As noted previously, the major reason for the large (32%) jump in net assets from 2004 to 2005 is the inclusion of historical infrastructure.

Governmental Activities

The following table (*Net Cost of Selected City Functions*) presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and related intergovernmental aid). The net cost reflects what was funded by local tax dollars and other general resources.

- The operational cost of all governmental activities during 2005 was \$32,783,738.
- The net cost that City taxpayers paid for these activities through local taxes was \$14,908,936, or about 45% of the total.
- The remaining cost was paid by user charges to those who directly benefit from the programs or by state and federal grants and contributions

Net Cost of Selected City Functions
(in thousands of dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2005	2004		2005	2004	
Governmental activities						
Public safety	\$12,482	\$12,164	2.6%	\$11,191	\$10,814	3.5%
Community and economic development	3,693	2,652	39.3%	117	(994)	-111.8%
Culture and recreation	2,505	2,468	1.5%	1,262	1,117	13.0%
Highways, streets and bridges	5,910	3,879	52.4%	(2,919)	(4,186)	-30.3%
Public works	2,853	2,848	0.2%	2,185	1,858	17.6%
All other	5,341	5,728	-6.8%	3,867	4,292	-9.9%
Total governmental activities	\$32,784	\$29,739	10.2%	\$15,703	\$12,901	21.7%

Business-Type Activities

The financial goal of the City's business-type activities (i.e. water, sewer and marina operations) is to operate on a more or less "break-even" basis without making significant profit or needing general tax subsidies. For 2005 this goal was achieved with the City's total business-type activities realizing an overall increase in net assets of \$3,149,500. These funds were used to pay debt principal, fund required reserves and invest in capital assets.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The fund financial statements provide detailed information about the major City funds, not the City as a whole. The City's major funds for 2005 were the general fund and the major street and trunkline fund.

General Fund Budgetary Highlights

The general fund receives the most public attention since it is where local tax revenues are accounted for and where the most popular municipal services such as police, fire and parks are funded. The City reforecasts its general fund budget on a quarterly basis to take into account changing economic conditions and policy priorities. The following table shows the general fund year-end fund balance for the last five years:

Year	Year-End Fund Balance	Year-to-Year % Change	Prior Year's Expenditures and Other Uses	Fund Balance as a % of Prior Year Expenditures (Policy Target = 10%)
2005	\$2,519,605	+3.0%	\$ 23,388,020	10.77%
2004	2,445,191	+0.5%	23,705,334	10.31%
2003	2,431,418	-13.4%	23,971,536	10.14%
2002	2,807,996	-11.2%	23,235,978	12.08%
2001	3,162,368	-	22,232,657	14.22%

Actual 2005 general fund expenditures were \$207,124 below original budget amount. Most of this variance occurred in the areas of salaries, benefits and other operating costs as the City continued to manage its way through a difficult economy with tight control of position vacancies and overtime.

General fund revenues in 2005 were \$333,068 more than originally budgeted. The positive variance is attributable to higher than anticipated local income tax collections and investment earnings. These positive revenue variances helped to offset shortfalls in other revenues categories, particularly, aid from the state and federal governments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City and its component units had invested \$135,809,694 in a wide range of capital assets, including land, equipment, buildings, water and sewer lines, and vehicles. Included in this figure, for the first time in 2005, are historical infrastructure asset investments made between 1980 and 2002. The inclusion of these historical infrastructure assets is a requirement of GASB 34. Note D of the notes to the basic financial statements provides detailed information on the City's capital asset investment.

The City's fiscal year 2006 capital budget anticipates spending \$16,157,777 for capital projects, principally street improvements, water and sewer system improvements, and a new central fire station. These improvements will be funded through grants, debt proceeds, and operating revenues.

Bond Ratings

The City's limited full faith and credit bonds (i.e. bonds guaranteed by the City's general taxing powers) presently carry a Standard & Poors rating of "A".

Long-Term Debt

At year-end 2005, the City had \$33,249,743 in bonds and other long-term obligations outstanding. This represents an increase of 12% primarily because of water fund debt issued for the purpose of financing water filtration plant improvements. A total \$13.9 million of debt was issued for this purpose with \$8,483,766 drawn during 2004 and the remaining \$5,416,214 drawn in 2005. Additionally, during 2005 the City entered into the following new debt obligations:

- \$456,076 Urban Land Assembly (ULA) Loan through the State of Michigan. This loan carries zero-percent interest and will be used for downtown redevelopment. Additional ULA loan funds will be drawn-down in 2006 for a total loan of \$700,000;
- \$605,824 installment purchase agreement to finance purchase of two new fire trucks; and,
- \$459,539 of contractual wastewater debt issued by Muskegon County.

Additional information concerning the City's long-term debt is presented in Note I to the basic financial statements.

City's Long Term Debt – Bonds and Other Obligations
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005-2004</u>
Due within one year	\$1,423	\$1,376	\$2,088	\$1,546	\$3,511	\$2,922	20.2%
Due in more than one year	<u>5,738</u>	<u>6,013</u>	<u>24,001</u>	<u>20,736</u>	<u>29,739</u>	<u>26,749</u>	11.2%
Total bonds & other obligations	\$7,161	\$7,389	\$26,089	\$22,282	\$33,250	\$29,671	12.1%

In addition to direct City debt, component units such as the Downtown Development Authority (DDA) and Local Development Finance Authority (LDFA) had outstanding debt totaling \$9,022,561 at year-end as shown in the table below. Debt issued by these component units typically is secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health. Additional information concerning component units' long-term debt is presented in Note I to the basic financial statements and is summarized as follows:

Component Unit Long Term Debt – Bonds and Other Obligations
(In thousands of dollars)

	Downtown Finance Authority		Local Development Finance Authority		Total		Total Percentage Change
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005-2004</u>
Due within one year	\$200	\$185	\$ -	\$ -	\$ 200	\$ 185	8.1%
Due in more than one year	<u>4,105</u>	<u>4,305</u>	<u>4,717</u>	<u>4,717</u>	<u>8,822</u>	<u>9,022</u>	-2.2%
Total bonds & other obligations	\$4,305	\$4,490	\$4,717	\$4,717	\$9,022	\$9,207	-2.0%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City depends on five major sources of revenue to fund its operations: local income taxes, local property taxes, state-shared revenues, state street funds, and water and sewer utility fees. Together, these five income sources account for about seventy percent of the City's total revenues. Meaningful discussion of the City's financial outlook needs to center on these major income sources.

Local Income Tax

The City income tax was approved by voters in 1993 and now is the primary source of funding for police, fire, parks and other general operations. The tax rate is 1% on City residents and ½ of 1% on non-residents who work in the City. The income tax provides key advantages for urban core cities such as Muskegon. First, it allows the City to regionalize its tax structure by taxing non-residents who work here and use City services and by allowing the City to benefit from development occurring outside the City limits. A second major advantage is that it generates revenue from employees working at hospitals, churches, government agencies, colleges and other institutions traditionally exempt from paying property taxes. This is particularly important for Muskegon since six of the ten largest income tax sources are such institutions. Income tax revenues increased slightly from \$7,033,387 in 2004 to \$7,083,023 for 2005 (+0.7%). For 2006,

the City is conservatively estimating income tax revenues at \$6,800,000. The following table shows the resident and non-resident composition of the income tax base:

Category	Number of Payers	2005 Amount Paid	Percent of Total	Average Amount Paid 2005	Average Amount Paid 2004
City Resident	7,631	\$ 2,352,004	33%	\$ 308	\$ 294
Non-Resident	14,403	4,037,323	57%	280	266
Corporate	1,850	693,696	10%	375	440
Total	23,884	\$7,083,023	100%	\$ 297	\$289

Local Property Tax

The City's 2005 property tax millage consisted of 11 mills: 8.5 mills for general operations and 2.5 mills levied for sanitation. City charter authorizes a general operating millage up to 10 mills and state law permits a maximum sanitation millage of 3 mills. Millage rates are applied to the taxable value of property in the City to arrive at the City's property tax levy. As shown below, taxable values have been flat over the last few years.

Year	Real	Personal	Total	Percent Change
2005	\$673,785,278	\$158,140,600	\$831,925,878	+0.3%
2004	661,233,389	168,106,228	829,339,617	-1.2%
2003	661,692,712	177,348,400	839,041,112	+1.6%
2002	638,624,250	187,393,600	826,017,850	+1.6%
2001	601,420,300	211,503,600	812,923,900	-

State Shared Revenues

State shared sales tax revenues represent about twenty-percent of total general fund revenue. The City's state shared revenue allocation is made up of two approximately equal parts. The constitutional component is a fixed percentage of total state sales tax collections that is allocated to cities on a per capita basis and that cannot be reduced by the legislature. The statutory component is determined by a complex formula and is subject to adjustment through the State's budget process. Both constitutional and statutory components depend, of course, on overall state sales tax collections. Over the last several years, state shared revenues have fallen sharply due to the faltering economy and to executive order budget cuts in the statutory share. The City's recent state shared revenue history is summarized below:

Year	State Shared Revenues	Percent Change
2006*	\$4,680,217	+0.9%
2005	4,592,852	-1.1%
2005	4,645,348	-5.9%
2004	4,938,861	-7.8%
2002	5,353,987	-6.9%
2001	5,748,523	-
* Budget amount		

Continued erosion of the state shared revenue component constitutes the single biggest threat to the stability of City finances at this time. Due to the local income tax, Muskegon is somewhat less dependent on this revenue source than most Michigan cities.

Street Funds

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets in the City. These revenues have not suffered to the extent that general state sales tax revenues have:

Year	Street Revenues from State	Percent Change
2006*	\$3,533,595	+6.5%
2005	3,319,131	-4.1%
2004	3,459,503	+9.2%
2003	3,166,406	-1.7%
2002	3,220,625	+1.9%
2001	3,159,325	-
* Budgeted amount		

Water and Sewer Fees

From a government-wide entity perspective, combined water and sewer fees represent the City's largest income source totaling \$10,859,471 in 2005. Charges to customers are based on the amount of metered services used times rates periodically set by the City Commission. For 2006, sewer rates were increased to help offset the loss of flow related to the closing of part of a major industrial sewer user.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report, need additional financial information, or wish to obtain separate financial statements for the City's component units, contact the City's Finance Department at (231) 724-6713 or by e-mail (finance@shorelinecity.com).

FINANCIAL STATEMENTS

City of Muskegon
STATE OF NET ASSETS
December 31, 2005

ASSETS

	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 10,852,620	\$ 3,986,611	\$ 14,839,231	\$ 349,950
Receivables	10,464,919	2,985,594	13,450,513	410,215
Internal balances	(1,362,573)	1,362,573	-	-
Due from other governmental units	2,500,301	94,211	2,594,512	8,507
Inventories	18,785	84,933	103,718	-
Prepaid items	259,953	25,569	285,522	-
Total current assets	22,734,005	8,539,491	31,273,496	768,672
NONCURRENT ASSETS				
Restricted assets	-	822,559	822,559	-
Capital assets, net	17,159,321	25,807,477	42,966,798	400,000
Nondepreciable	55,067,558	33,936,764	89,004,322	3,438,574
Depreciable	-	1,541,382	1,541,382	-
Access rights, net	53,351	115,775	169,126	123,449
Bond issuance costs, net	3,564,984	-	3,564,984	-
Special assessments receivable	-	823,103	823,103	-
Contract receivable	-	-	-	-
Total noncurrent assets	75,845,214	63,047,060	138,892,274	3,962,023
Total assets	98,579,219	71,586,551	170,165,770	4,730,695
LIABILITIES AND NET ASSETS (DEFICITS)				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	1,796,109	1,072,280	2,868,389	46,700
Due to other governmental units	-	196,390	196,390	-
Deferred revenue	9,270,828	-	9,270,828	410,215
Bonds and other obligations, due within one year	1,422,702	2,088,434	3,511,136	200,000
Total current liabilities	12,489,639	3,357,104	15,846,743	656,915
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	5,737,951	24,000,656	29,738,607	8,822,561
Total liabilities	18,227,590	27,357,760	45,585,350	9,479,476
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	67,119,658	36,742,669	103,862,327	(755,538)
Restricted for:	4,200,937	-	4,200,937	-
Streets and highways	-	822,559	822,559	-
Debt service	-	-	-	-
Perpetual care	22,890	-	22,890	-
Expendable	1,196,655	-	1,196,655	-
Non-expendable	7,811,489	6,663,563	14,475,052	(3,993,243)
Unrestricted	-	-	-	-
Total net assets (deficits)	\$ 80,351,629	\$ 44,228,791	\$ 124,580,420	\$ (4,748,781)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
For the year ended December 31, 2005

<i>Functions/Programs</i>	Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Program Revenue		Primary Government		Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities
Primary government						
Governmental activities						
Public representation services	\$ 885,365	\$ 195,316	\$ -	\$ -	\$ (690,049)	\$ -
Administrative services	803,783	311,529	55,000	-	(437,254)	-
Financial services	1,872,159	537,445	-	-	(1,334,714)	-
Public safety	12,481,826	1,116,755	173,877	-	(11,191,194)	-
Public works	2,853,497	467,849	-	200,138	(2,185,510)	-
Highways, streets and bridges	5,910,307	267,689	3,348,528	5,213,099	2,919,009	-
Community and economic development	3,693,187	815,980	2,367,478	392,708	(117,021)	-
Culture and recreation	2,504,692	1,141,865	12,538	88,413	(1,261,876)	-
General administration	1,608,108	314,658	60,000	-	(1,233,450)	-
Interest on long-term debt	170,814	-	-	-	(170,814)	-
Total governmental activities	32,783,738	5,169,086	6,017,421	5,894,358	(15,702,873)	-
Business-type activities						
Sewer	3,953,838	4,149,187	-	35,063	-	230,412
Water	4,181,855	6,912,719	-	22,557	-	2,753,421
Marina and Launch Ramp	343,599	248,460	-	42,753	-	(52,386)
Total business-type activities	8,479,292	11,310,366	-	100,373	-	2,931,447
Total primary government	\$ 41,263,030	\$ 16,479,452	\$ 6,017,421	\$ 5,994,731	(15,702,873)	-
Component units						
Local Development Finance Authority I	\$ -	\$ -	\$ -	\$ -	-	-
Local Development Finance Authority II	-	-	-	-	-	-
Local Development Finance Authority III	384,898	-	-	-	-	(384,898)
Downtown Development Authority	568,409	-	-	-	-	(568,409)
Tax Increment Finance Authority	60,000	-	-	-	-	(60,000)
Total component units	\$ 1,013,307	\$ -	\$ -	\$ -	-	(1,013,307)
General revenues						
Property taxes					7,670,384	797,723
Income taxes					7,238,552	-
Franchise fees					286,265	-
Grants and contributions not restricted to specific programs					4,627,915	-
Unrestricted investment earnings					138,053	26,122
Miscellaneous					420,595	-
Gain on sale of capital asset					70,402	-
Transfers					300,037	-
					(80,000)	-
Total general revenues and transfers					20,534,150	823,845
Change in net assets					218,053	-
Net assets (deficit) at January 1, 2005, as restated					3,149,500	(189,462)
Net assets (deficit) at December 31, 2005					41,079,291	(4,559,319)
					\$ 80,351,629	\$ 124,580,420
					\$ 44,228,791	\$ (4,748,781)

The accompanying notes are an integral part of this statement.

City of Muskegon
BALANCE SHEET
Governmental Funds
December 31, 2005

	ASSETS			
	General Fund	Major Street and Trunkline Fund	Other governmental funds	Total governmental funds
Cash and investments	\$ 2,082,886	\$ 1,565,189	\$ 4,643,834	\$ 8,291,909
Receivables				
Accounts and loans	355,518	56,157	711,462	1,123,137
Property taxes	6,721,935	-	-	6,721,935
Income taxes	1,084,316	-	-	1,084,316
Special assessments	-	1,214,693	2,753,481	3,968,174
Due from other governmental units	804,055	507,410	1,159,882	2,471,347
Due from other funds	-	-	852,763	852,763
Prepaid items	69,356	17,143	5,866	92,365
Total assets	\$ 11,118,066	\$ 3,360,592	\$ 10,127,288	\$ 24,605,946
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 496,611	\$ 246,769	\$ 222,023	\$ 965,403
Accrued liabilities	376,611	25,477	28,220	430,308
Due to other funds	-	-	766,774	766,774
Deferred revenue	7,725,239	2,241,197	2,869,376	12,835,812
Total liabilities	8,598,461	2,513,443	3,886,393	14,998,297
Fund balances				
Reserved for:				
Prepaid items	69,356	17,143	4,965	91,464
Capital projects	-	-	1,706,343	1,706,343
Perpetual care	10,000	-	1,186,655	1,196,655
Unreserved	-	-	1,239,763	1,239,763
Designated, reported in capital projects funds				
Undesignated, reported in				
General Fund	2,440,249	-	-	2,440,249
Special revenue funds	-	830,006	2,080,279	2,910,285
Permanent funds	-	-	22,890	22,890
Total fund balances	2,519,605	847,149	6,240,895	9,607,649
Total liabilities and fund balances	\$ 11,118,066	\$ 3,360,592	\$ 10,127,288	\$ 24,605,946

The accompanying notes are an integral part of this statement.

City of Muskegon
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2005

Total fund balance—governmental funds		\$	9,607,649
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.			
Cost of capital assets	\$	104,012,851	
Accumulated depreciation		<u>(34,931,106)</u>	69,081,745
Bond issuance costs are not capitalized and amortized in the governmental funds.			
Bond issuance costs		92,212	
Accumulated amortization		<u>(38,861)</u>	53,351
Other receivables in governmental activities is not reported in the governmental funds.			645,000
Accrued interest in governmental activities is not reported in the governmental funds.			(16,000)
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.			3,564,984
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.			
Bonds payable		(5,766,396)	
Compensated absences		<u>(1,297,054)</u>	(7,063,450)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported with governmental activities in the Statement of Net Assets.			4,478,350
Net assets of governmental activities in the Statement of Net Assets	\$	<u>80,351,629</u>	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended December 31, 2005

	General Fund	Major Street and Trunkline Fund	Other governmental funds	Total governmental funds
REVENUES				
Taxes	\$ 14,521,769	\$ -	\$ -	\$ 14,521,769
Licenses and permits	1,047,981	-	-	1,047,981
Intergovernmental revenues				
Federal	155,648	585,259	2,459,262	3,200,169
State	4,611,081	5,791,760	1,107,299	11,510,140
Local	-	-	735,640	735,640
Charges for services	2,069,861	275,847	801,358	3,147,066
Fines and forfeitures	646,749	-	1,551	648,300
Interest and rental income	333,122	178,066	172,977	684,165
Other	308,063	296,652	1,149,443	1,754,158
Total revenues	23,694,274	7,127,584	6,427,530	37,249,388
EXPENDITURES				
Current				
Public representation services	886,717	-	-	886,717
Administrative services	748,588	-	-	748,588
Financial services	1,905,714	-	-	1,905,714
Public safety	12,587,931	-	36,601	12,624,532
Public works	2,661,073	-	-	2,661,073
Highways, streets and bridges	-	6,294,127	3,237,713	9,531,840
Community and economic development	745,794	-	38,602	784,396
Culture and recreation	2,197,276	-	-	2,197,276
Other governmental functions	499,059	-	1,104,233	1,603,292
Debt service				
Principal	-	585,000	530,000	1,115,000
Interest and fees	3,280	66,608	96,183	166,071
Capital outlay	53,514	-	3,680,568	3,734,082
Total expenditures	22,288,946	6,945,735	8,723,900	37,958,581
Excess of revenues over (under) expenditures	1,405,328	181,849	(2,296,370)	(709,193)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	827,141	827,141
Proceeds from long-term debt	-	-	1,061,900	1,061,900
Transfers in	38,367	-	1,801,264	1,839,631
Transfers out	(1,369,281)	(300,865)	(277,531)	(1,947,677)
Total other financing sources (uses)	(1,330,914)	(300,865)	3,412,774	1,780,995
Net change in fund balances	74,414	(119,016)	1,116,404	1,071,802
Fund balances at January 1, 2005	2,445,191	966,165	5,124,491	8,535,847
Fund balances at December 31, 2005	\$ 2,519,605	\$ 847,149	\$ 6,240,895	\$ 9,607,649

The accompanying notes are an integral part of this statement.

City of Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended December 31, 2005

Net change in fund balances—total governmental funds:	\$	1,071,802
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.		
Depreciation and amortization expense	\$	(2,480,155)
Capital outlay		<u>3,308,933</u>
Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of the capital assets.		(41,827)
Debt proceeds are other financing source in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(1,061,900)
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		(240,000)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		1,116,997
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		4,800
Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		164,790
Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.		(153,743)
The internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.		<u>661,425</u>
Change in net assets of governmental activities	\$	<u><u>4,831,277</u></u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS
Proprietary Funds
December 31, 2005

ASSETS

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
CURRENT ASSETS					
Cash and investments	\$ 1,270,352	\$ 2,716,259	\$ -	\$ 3,986,611	\$ 2,560,712
Receivables					
Accounts	1,066,747	1,475,402	3,445	2,545,594	487,338
Contracts	440,000	-	-	440,000	-
Due from other governmental units	-	51,458	42,753	94,211	28,954
Inventories	18,877	66,056	-	84,933	18,785
Prepaid items	10,875	13,960	734	25,569	167,588
Total current assets	2,806,851	4,323,135	46,932	7,176,918	3,263,377
NONCURRENT ASSETS					
Restricted assets					
Capital assets, net	-	822,559	-	822,559	-
Land	16,188	103,500	22,562	142,250	65,000
Land improvements	-	-	1,901,973	1,901,973	121,648
Buildings, improvements and systems	17,231,875	36,148,806	1,168,542	54,649,223	1,562,717
Machinery and equipment	96,457	1,463,851	-	1,560,308	7,409,062
Construction in progress	1,409,203	24,170,518	85,506	25,665,227	-
Less accumulated depreciation	(5,540,252)	(16,904,531)	(1,729,957)	(24,174,740)	(6,013,293)
Net capital assets	13,313,471	44,982,144	1,448,626	59,744,241	3,145,134
Access rights, net	1,541,382	-	-	1,541,382	-
Bond issuance costs, net	-	115,775	-	115,775	-
Contracts receivable	823,103	-	-	823,103	-
Total noncurrent assets	15,677,956	45,920,478	1,448,626	63,047,060	3,145,134
Total assets	18,484,807	50,243,613	1,495,558	70,223,978	6,408,511
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	121,075	743,408	11,591	876,074	353,075
Accrued liabilities	22,094	172,535	1,577	196,206	31,321
Due to other governmental units	196,390	-	-	196,390	-
Due to other funds	-	-	85,989	85,989	-
Bonds and other obligations, due within one year	1,068,953	1,018,959	522	2,088,434	16,525
Total current liabilities	1,408,512	1,934,902	99,679	3,443,093	400,921
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	2,589,731	21,408,378	2,547	24,000,656	80,678
Total liabilities	3,998,243	23,343,280	102,226	27,443,749	481,599
NET ASSETS					
Invested in capital assets, net of related debt	12,511,939	22,782,104	1,448,626	36,742,669	3,145,134
Restricted for debt service	-	822,559	-	822,559	-
Unrestricted	1,974,625	3,295,670	(55,294)	5,215,001	2,781,778
Total net assets	14,486,564	26,900,333	1,393,332	42,780,229	5,926,912
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				1,448,562	
Net assets of business-type activities				\$ 44,228,791	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended December 31, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
OPERATING REVENUES					
Charges for services	\$ 4,076,128	\$ 6,783,343	\$ 242,219	\$ 11,101,690	\$ 6,115,835
Other	73,059	129,376	6,241	208,676	205,380
Total operating revenues	4,149,187	6,912,719	248,460	11,310,366	6,321,215
OPERATING EXPENSES					
Administration	294,000	445,543	25,332	764,875	263,304
Insurance premiums and claims	-	-	-	-	3,592,689
Wastewater treatment	2,829,404	-	-	2,829,404	-
Filtration plant operations	-	1,102,410	-	1,102,410	-
Water distribution	-	1,645,600	-	1,645,600	-
Other operations	-	-	239,436	239,436	2,650,573
Bad debts	4,715	3,679	-	8,394	-
Depreciation and amortization	740,898	612,801	80,179	1,433,878	536,625
Total operating expenses	3,869,017	3,810,033	344,947	8,023,997	7,043,191
Operating income (loss)	280,170	3,102,686	(96,487)	3,286,369	(721,976)
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	32,928	105,125	-	138,053	53,009
Interest expense	(114,388)	(418,549)	-	(532,937)	-
Gain on sale of capital assets	-	-	-	-	156,140
Total nonoperating revenue (expenses)	(81,460)	(313,424)	-	(394,884)	209,149
Income (loss) before contributions and transfers	198,710	2,789,262	(96,487)	2,891,485	(512,827)
Capital contributions	35,063	22,557	42,753	100,373	76,890
Transfers in	-	-	80,000	80,000	1,175,004
Change in net assets	233,773	2,811,819	26,266	3,071,858	739,067
Total net assets at January 1, 2005	14,252,791	24,088,514	1,367,066		5,187,845
Total net assets at December 31, 2005	\$ 14,486,564	\$ 26,900,333	\$ 1,393,332		\$ 5,926,912
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds				77,642	
Change in net assets of business-type activities				<u>\$ 3,149,500</u>	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended December 31, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Sewer	Water	Marina and Launch Ramp	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 4,207,772	\$ 6,316,641	\$ 257,004	\$ 10,781,417	\$ 161,150
Receipts from interfund services provided	24,752	253,618	-	278,370	6,115,835
Payments to suppliers	(1,949,750)	(1,316,149)	(133,044)	(3,398,943)	(5,001,652)
Payments to employees	(554,497)	(1,213,580)	(100,259)	(1,868,336)	(1,003,909)
Payments for interfund services used	(454,859)	(692,877)	(31,580)	(1,179,316)	(653,363)
Net cash provided by (used for) operating activities	1,273,418	3,347,653	(7,879)	4,613,192	(381,939)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	80,000	80,000	1,175,004
Interfund borrowing	-	-	13,384	13,384	909,725
Net cash provided by noncapital financing activities	-	-	93,384	93,384	2,084,729
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital debt	-	5,416,234	-	5,416,234	-
Capital contributions	35,063	22,557	-	57,620	35,063
Purchases of capital assets	(830,867)	(9,016,646)	(85,505)	(9,933,018)	(854,852)
Principal paid on capital debt	(522,956)	(435,000)	-	(957,956)	-
Interest paid on capital debt	(114,388)	(369,227)	-	(483,615)	-
Proceeds from sale of capital assets	-	-	-	-	227,906
Net cash used for capital and related financing activities	(1,433,148)	(4,382,082)	(85,505)	(5,900,735)	(591,883)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	32,928	105,125	-	138,053	53,009
Net increase (decrease) in cash and investments	(126,802)	(929,304)	-	(1,056,106)	1,163,916
Cash and investments at January 1, 2005	1,397,154	4,468,122	-	5,865,276	1,396,796
Cash and investments at December 31, 2005	<u>\$ 1,270,352</u>	<u>\$ 3,538,818</u>	<u>\$ -</u>	<u>\$ 4,809,170</u>	<u>\$ 2,560,712</u>
Reconciliation of cash and investments to the balance sheet					
Cash and investments	\$ 1,270,352	\$ 2,716,259	\$ -	\$ 3,986,611	\$ 2,560,712
Restricted cash and investments	-	822,559	-	822,559	-
	<u>\$ 1,270,352</u>	<u>\$ 3,538,818</u>	<u>\$ -</u>	<u>\$ 4,809,170</u>	<u>\$ 2,560,712</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ 280,170	\$ 3,102,686	\$ (96,487)	\$ 3,286,369	\$ (721,976)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation and amortization expense	740,898	612,801	80,179	1,433,878	536,625
Bad debt expense	4,715	3,679	-	8,394	-
Change in assets and liabilities					
Receivables, net	83,337	(342,460)	8,544	(250,579)	(206,309)
Inventories	11,918	11,918	-	23,836	(515)
Prepaid items	(1,027)	(2,414)	(42)	(3,483)	3,592
Accounts payable	153,107	(37,690)	(679)	114,738	5,351
Accrued liabilities	300	(867)	606	39	1,293
Net cash provided by operating activities	<u>\$ 1,273,418</u>	<u>\$ 3,347,653</u>	<u>\$ (7,879)</u>	<u>\$ 4,613,192</u>	<u>\$ (381,939)</u>
Noncash financing activities					
Contribution of capital assets from governmental activities	-	-	-	-	41,827
Assumption of additional County debt	268,721	-	-	268,721	-

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 December 31, 2005

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and investments	\$ 83,332,566	\$ 4,364,827
Receivables		
Accounts	-	900
Taxes	-	18,865,604
Total assets	83,332,566	\$ 23,231,331
LIABILITIES		
Accounts payable	1,119	\$ 1,046
Due to other governmental units	-	22,161,819
Deposits held for others	-	1,068,466
Total liabilities	1,119	\$ 23,231,331
NET ASSETS		
Held in trust for pension benefits	72,797,666	
Held in trust for healthcare benefits	10,533,781	
Total net assets	\$ 83,331,447	

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 Fiduciary Funds
 For the year ended December 31, 2005

ADDITIONS	Pension Trust Funds
Contributions	
Employer	\$ 2,636,422
Plan members	726,934
Total contributions	<u>3,363,356</u>
Investment earnings	
Interest and dividends	40,181
Net increase in fair value of investments	<u>5,272,344</u>
Total net investment earnings	<u>5,312,525</u>
Total additions	<u>8,675,881</u>
DEDUCTIONS	
Benefits	4,564,748
Refunds of contributions	1,880,936
Plan assets transferred to Municipal Employees Retirement System	5,654,433
Administrative expenses	224,121
Transfers out	<u>1,146,958</u>
Total deductions	<u>13,471,196</u>
Change in net assets	(4,795,315)
Net assets at January 1, 2005	<u>88,126,762</u>
Net assets at December 31, 2005	<u>\$ 83,331,447</u>

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF NET ASSETS (DEFICITS)
Discretely Presented Component Units
December 31, 2005

ASSETS

	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority	Total
CURRENT ASSETS						
Cash and investments	\$ 312	\$ 22,321	\$ 282,397	\$ 41,565	\$ 3,355	\$ 349,950
Property taxes receivable	-	-	15,493	340,951	53,771	410,215
Due from other governmental units	-	-	-	8,507	-	8,507
Total current assets	312	22,321	297,890	391,023	57,126	768,672
NONCURRENT ASSETS						
Capital assets						
Nondepreciable	-	-	400,000	-	-	400,000
Depreciable	-	-	3,438,574	-	-	3,438,574
Net capital assets	-	-	3,838,574	-	-	3,838,574
Bond issuance costs, net	-	-	123,449	-	-	123,449
Total noncurrent assets	-	-	3,962,023	-	-	3,962,023
Total assets	312	22,321	4,259,913	391,023	57,126	4,730,695
LIABILITIES AND NET ASSETS (DEFICITS)						
CURRENT LIABILITIES						
Accrued liabilities	-	-	34,200	12,500	-	46,700
Deferred revenue	-	-	15,493	340,951	53,771	410,215
Bonds and other obligations, due within one year	-	-	-	200,000	-	200,000
Total current liabilities	-	-	49,693	553,451	53,771	656,915
NONCURRENT LIABILITIES						
Bonds and other obligations, less amounts due within one year	-	-	4,717,561	4,105,000	-	8,822,561
Total liabilities	-	-	4,767,254	4,658,451	53,771	9,479,476
NET ASSETS (DEFICITS)						
Invested in capital assets, net of related debt	-	-	(755,538)	-	-	(755,538)
Unrestricted	312	22,321	248,197	(4,267,428)	3,355	(3,993,243)
Total net assets (deficits)	\$ 312	\$ 22,321	\$ (507,341)	\$ (4,267,428)	\$ 3,355	\$ (4,748,781)

The accompanying notes are an integral part of this statement.

City of Muskegon
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended December 31, 2005

		Net (Expense) Revenue and Changes in Net Assets				
		Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Tax Increment Finance Authority	Total
<i>Functions/Programs</i>	Expenses					
Local Development Finance Authority I	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Economic development	-	-	-	-	-	-
Local Development Finance Authority II						
Economic development	-	-	-	-	-	-
Local Development Finance Authority III						
Economic development	178,821	-	-	(178,821)	-	(178,821)
Interest on long-term debt	206,077	-	-	(206,077)	-	(206,077)
Total Local Development Finance Authority III	384,898	-	-	(384,898)	-	(384,898)
Downtown Development Authority						
Economic development	416,666	-	-	-	(416,666)	(416,666)
Interest on long-term debt	151,743	-	-	-	(151,743)	(151,743)
Total Downtown Development Authority	568,409	-	-	-	(568,409)	(568,409)
Tax Increment Finance Authority						
Economic development	60,000	-	-	-	(60,000)	(60,000)
Total discretely presented component units	\$ 1,013,307	-	-	(384,898)	(60,000)	(1,013,307)
General Revenues						
Property taxes	-	-	-	11,620	59,706	797,723
Unrestricted investment income	11	526	526	11,115	508	26,122
Total general revenues	11	526	526	22,735	60,214	823,845
Change in net assets		11	526	(362,163)	214	(189,462)
Total net assets (deficit) at January 1, 2005, as restated		301	21,795	(145,178)	3,141	(4,559,319)
Total net assets (deficit) at December 31, 2005	\$	312	22,321	(507,341)	3,355	(4,748,781)

The accompanying notes are an integral part of this statement.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Muskegon (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

The City implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38 on January 1, 2002. A significant change required by these statements was the inclusion of the City's infrastructure on new full accrual government-wide financial statements. GASB 34 allowed the City to record infrastructure acquired or constructed prior to January 1, 2002 within four years of implementing the statements. Effective January 1, 2005, the City recorded this infrastructure.

The beginning net assets restated for the effects of prior year infrastructure are as follows:

Net assets at January 1, 2005—governmental activities	\$ 53,280,853
Infrastructure acquired or constructed prior to January 1, 2002, net	<u>22,239,499</u>
Restated net assets at January 1, 2005	<u><u>\$ 75,520,352</u></u>

In addition, the Downtown Development Authority's net assets (deficit) and fund balance were restated due to the effect of an additional due to other governmental units that was not recorded in the prior year.

	Net Assets (Deficit)	Fund Balance
Net assets (deficit)/fund balance at January 1, 2005—DDA	\$ (4,068,894)	\$ 435,306
Due to other governmental units	<u>(370,484)</u>	<u>(370,484)</u>
Restated net assets (deficit)/fund balance at January 1, 2005	<u><u>\$ (4,439,378)</u></u>	<u><u>\$ 64,822</u></u>

Reporting Entity

The City of Muskegon was incorporated October 6, 1919, under the provisions of the Home Rule Act of the State of Michigan. The City is a municipal corporation governed by an elected mayor and six-member City Commission and is administered by a city manager appointed by the City Commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. Each discretely presented component unit has a December 31 fiscal year end.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Blended Component Unit

Building Authority. The Authority is governed by a three-member board comprised of the City Manager, City Attorney and City Finance Director. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations since its sole purpose is to acquire and lease property to the City. Currently, there is no outstanding Building Authority indebtedness.

Discretely Presented Component Units

Downtown Development Authority (DDA). The Authority's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown district. Members of the DDA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the DDA budget and must approve any debt issuance. The DDA is presented as a governmental fund type.

Tax Increment Finance Authority (TIFA). The Authority's sole purpose is the collection of tax increment revenues and promotion of economic development activities (including issuance of debt) in a sub-section of the downtown district. Members of the TIFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves the TIFA budget and must approve any debt issuance. The TIFA is presented as a governmental fund type.

Local Development Finance Authority (LDFA). The City has created three separate local development finance authority districts under the aegis of the LDFA to promote and facilitate economic growth in the Port City Industrial Park, the Medendorp Industrial Park, and the SmartZone Hi-Tech Park. The LDFA's sole purpose is the collection of tax increment revenues and the construction of public facilities. Members of the LDFA are appointed by the City Commission and the Authority is fiscally dependent on the City since the City Commission approves budgets and must approve any debt issuance. The LDFA districts are presented as governmental fund types.

Complete financial statements of the component units can be obtained from their administrative offices, 933 Terrace Street, Muskegon, Michigan 49443.

Related Organizations

The following organizations are related to the City's financial reporting entity:

Muskegon Hospital Finance Authority. The Muskegon Hospital Finance Authority was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Hospital Finance Authority are appointed by the City but the City is not financially accountable for the Authority and therefore the Authority is excluded from the accompanying financial statements. The Hospital Finance Authority's sole purpose is to issue tax-exempt debt for the benefit of Hackley and Mercy-General hospitals, both of which are located within the City. The Authority has no assets or financial activity and does not prepare financial statements. The Hospital Finance Authority has no taxing power. As of December 31, 2005, there was no outstanding debt issued by the Hospital Finance Authority. The City is not obligated in any manner for repayment of debt issued by the Hospital Finance Authority, as any debt is payable solely from contractual payments from the hospitals.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Related Organizations—Continued

Muskegon Housing Commission. The Muskegon Housing Commission was created by the City of Muskegon in accordance with the laws of the State of Michigan. Members of the Housing Commission are appointed by the City but the City is not financially accountable for the Commission and therefore the Commission is excluded from the accompanying financial statements. The Housing Commission's main purpose is to administer activities that provide adequate housing facilities for low-income families and the elimination of housing conditions that are detrimental to the public peace, health, safety, and welfare. The Commission's policy is to prepare its financial statements on the basis prescribed by the Department of Housing and Urban Development. Accordingly, the summary information below (which is required by federal regulations), is not intended to present financial position and results of operations in conformity with generally accepted accounting principles. Summary financial information for the fiscal year ended September 30, 2004, the date of its latest audited financial statements is as follows:

Total assets	\$ 5,144,416
Total liabilities	<u>(167,413)</u>
Total fund equity	<u>\$ 4,977,003</u>
Total operating income	\$ 326,284
Total operating expenses	(1,920,580)
Total nonoperating revenues	<u>1,797,890</u>
Net income	<u>\$ 203,594</u>

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Income taxes, property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street and Trunkline Fund accounts for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The City reports the following three major proprietary funds:

The Sewer Fund accounts for user charges and for operating expenses and debt service of the City's sewer system.

The Water Fund accounts for user charges and for operating expenses and debt service of the City's water system.

The Marina and Launch Ramp Fund accounts for user fees collected and operating expenses for the Hartshorn Marina and boat launch ramp facilities.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Additionally, the City reports the following fund types:

Internal Service Funds account for the financing of goods or services provided to other funds of the government on a cost reimbursement basis.

The Pension Trust Funds are used to account for the assets held by the City as trustee for the employee retirement systems.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The City's three pension trust funds are also authorized to invest in corporate bonds, common stock and certain other investment vehicles. The City's deposits and investments are in accordance with statutory authority.

The City maintains a cash and investment pool that is available for use by all funds and component units. Each fund type's or component unit's portion of this pool is displayed on the combined balance sheet as "cash and investments". Cash overdrafts represent a deficit position in the pooled account and have been classified as amounts due to other funds. In addition, certain City trust funds including the Policemen and Firemen Retirement Trust Fund, the General Employees Retirement Trust Fund and the Cemetery Perpetual Care Trust Fund have investments which are separately held from those of other City funds.

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash and cash equivalents because the investments are not identifiable to the specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

In accordance with State law, interest earned in the Budget Stabilization Fund is recorded in the General Fund.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables—Continued

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. Taxes levied on December 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy.

The 2004 state taxable value for real/personal property of the City totaled approximately \$646,640,000 of which approximately \$17,820,000 was captured by the component units. The ad valorem taxes levied consisted of 8.5, 2.5, and .0768 mills for the City's general operating, sanitation, and community promotion purposes. These amounts are recognized in the General Fund with captured amounts shown in the TIFA, LDFA, and DDA component units.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Water Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$7,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water Fund during the year ended December 31, 2005 was \$654,647. Of this amount, \$236,098 was included as part of the cost of capital assets under construction in connection with water treatment facilities.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to obtain the historical cost of the initial reporting of these assets by recording the actual costs incurred by the City.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-25
Leasehold improvements	10-25
Buildings and improvements	25-50
Water and sewage mains	40-100
Furniture, vehicles and equipment	5-20
Infrastructure	15-50
Shared improvements	20

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Unused vacation and sick leave days are paid to employees upon termination under limits that vary by employee group. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, a liability for these amounts is reported in the governmental funds only for employee terminations as of year-end while the proprietary funds report the liability as it is incurred.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative (i.e. presentation of prior year's totals by fund type) data has not been presented in each of the statements since its inclusion would make the statements unduly complex and difficult to read. Also, certain items in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to September 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at City Hall to obtain public comments.
- c. Prior to September 25, the budget is legally adopted by the City Commission.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Commission. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City Manager may transfer line-item budget amounts within departments. Transfers of appropriations between departments require the approval of the City Commission. The legal level of budgetary control is the department level for the General Fund and the total expenditure or "fund" level for all other funds. The City Commission made several supplemental budgetary appropriations throughout the year.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Excess of Expenditures Over Appropriations

During the year ended December 31, 2005, actual expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
Other governmental functions	\$ 400,000	\$ 499,059
Major Street and Trunkline Fund	7,147,000	7,246,600
Local Street Fund	3,212,000	3,261,365
L.C. Walker Arena Fund	1,106,000	1,129,133
Enterprise Community Fund	-	212,614

These overexpenditures were funded with available fund balance.

NOTE C—DEPOSITS AND INVESTMENTS

As of December 31, 2005, the City had the following investments:

Investment Type	Fair value	Weighted average maturity (Months)	Moody's	Percent
Money market funds	\$ 1,959,062	0.97	AAA	2.1 %
External investment pools	4,757,510	1.10	not rated	5
Stock mutual funds	52,081,329	N/A	N/A	54.9
Bond mutual funds	29,354,430	85.90	AAA	31
US Treasury notes	1,339,045	4.27	N/A	1.4
US Agency obligations	5,316,346	6.93	AAA	5.6
Total fair value	<u>\$ 94,807,722</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>27.12</u>		

The City voluntarily invests certain excess funds in external pooled investment pools (Pools). The Pools are an external investment pool of "qualified" investments for Michigan municipalities. The Pools are not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pools.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Interest rate risk. The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At least 10% of the City's total portfolio must be in instruments maturing in 30 days or less and the weighted average maturity cannot be over three years. US Agency obligations, federal instrumentality securities and time certificates of deposit cannot have a final maturity exceeding five years, repurchase agreements cannot have a final maturity exceeding one year, commercial paper cannot have a final maturity exceeding 270 days and eligible bankers' acceptances cannot have a final maturity exceeding 180 days.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City has a concentration of credit risk policy that limits investment in commercial paper, eligible bankers acceptances and time certificates of deposit to 25% each of the total portfolio. All of the investments reported in the City's pension trust funds are stock mutual funds and bond mutual funds.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of December 31, 2005, \$8,553,683 of the City's bank balance of \$8,705,635 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has a custodial credit risk policy for investments that requires that all investments that are held with a third-party for safekeeping be in the City's name.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Commission action. At December 31, 2005, restricted cash and investments in the Water Fund was \$822,559, restricted by bond ordinance.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 13,487,968	\$ -	\$ -	\$ 13,487,968
Construction in progress	5,673,222	5,448,010	7,449,879	3,671,353
Total capital assets, not being depreciated	19,161,190	5,448,010	7,449,879	17,159,321
Capital assets, being depreciated:				
Land improvements	2,241,156	150,091	-	2,391,247
Leasehold improvements	248,295	39,000	-	287,295
Buildings and improvements	17,084,805	35,203	-	17,120,008
Furniture, vehicles and equipment	10,841,598	836,404	900,272	10,777,730
Infrastructure	52,273,666	7,585,111	-	59,858,777
Shared improvements	5,576,901	-	-	5,576,901
Total capital assets, being depreciated	88,266,421	8,645,809	900,272	96,011,958
Less accumulated depreciation:				
Land improvements	187,623	61,450	-	249,073
Leasehold improvements	-	25,090	-	25,090
Buildings and improvements	11,535,396	310,932	-	11,846,328
Furniture, vehicles and equipment	8,574,652	656,060	828,506	8,402,206
Infrastructure	17,946,248	1,672,862	-	19,619,110
Shared improvements	523,748	278,845	-	802,593
Total accumulated depreciation	38,767,667	3,005,239	828,506	40,944,400
Total capital assets, being depreciated, net	49,498,754	5,640,570	71,766	55,067,558
Capital assets, net	\$ 68,659,944	\$ 11,088,580	\$ 7,521,645	\$ 72,226,879

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE D—CAPITAL ASSETS—Continued

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 142,250	\$ -	\$ -	\$ 142,250
Construction in progress	18,849,179	8,273,198	1,457,150	25,665,227
Total capital assets, not being depreciated	18,991,429	8,273,198	1,457,150	25,807,477
Capital assets, being depreciated:				
Land improvements	1,901,973	-	-	1,901,973
Buildings and systems	53,192,073	1,457,150	-	54,649,223
Machinery and equipment	1,560,308	-	-	1,560,308
Total capital assets, being depreciated	56,654,354	1,457,150	-	58,111,504
Less accumulated depreciation:				
Land improvements	1,489,083	44,904	-	1,533,987
Buildings and systems	20,854,383	909,478	-	21,763,861
Machinery and equipment	813,835	63,057	-	876,892
Total accumulated depreciation	23,157,301	1,017,439	-	24,174,740
Total capital assets, being depreciated, net	33,497,053	439,711	-	33,936,764
Capital assets, net	\$ 52,488,482	\$ 8,712,909	\$ 1,457,150	\$ 59,744,241

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

Administrative services	\$ 61,582
Financial services	2,631
Public safety	72,353
Public works	89,607
Highways, streets and bridges	1,903,214
Community and economic development	84,646
Culture and recreation	249,765
General administration	4,816
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	<u>536,625</u>
	<u><u>\$ 3,005,239</u></u>

Business-type activities:

Water	\$ 605,972
Sewer	331,288
Marina	<u>80,179</u>
	<u><u>\$ 1,017,439</u></u>

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Component units:				
Capital assets, not being depreciated:				
Land	\$ 400,000	\$ -	\$ -	\$ 400,000
Capital assets, being depreciated:				
Building and improvements	3,798,258	-	-	3,798,258
Less accumulated depreciation:				
Buildings and improvements	<u>187,035</u>	<u>172,649</u>	<u>-</u>	<u>359,684</u>
Total accumulated depreciation	<u>187,035</u>	<u>172,649</u>	<u>-</u>	<u>359,684</u>
Total capital assets, being depreciated, net	<u>3,611,223</u>	<u>(172,649)</u>	<u>-</u>	<u>3,438,574</u>
Capital assets, net	<u><u>\$ 4,011,223</u></u>	<u><u>\$ (172,649)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,838,574</u></u>

Depreciation

Depreciation expense was charged to economic development.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Business-type activities				
Access rights	\$ 3,464,093	\$ 856,649	\$ 1,853,459	\$ 2,467,283
Less accumulated amortization	<u>2,369,748</u>	<u>409,612</u>	<u>1,853,459</u>	<u>925,901</u>
Access rights, net	<u>\$ 1,094,345</u>	<u>\$ 447,037</u>	<u>\$ -</u>	<u>\$ 1,541,382</u>

Amortization

Amortization expense was charged to sewer.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Governmental activities:				
Bond issuance costs	\$ 92,212	\$ -	\$ -	\$ 92,212
Less accumulated amortization	<u>27,320</u>	<u>11,541</u>	<u>-</u>	<u>38,861</u>
Bond issuance costs, net	<u>\$ 64,892</u>	<u>\$ (11,541)</u>	<u>\$ -</u>	<u>\$ 53,351</u>
Business-type activities:				
Bond issuance costs	\$ 270,814	\$ -	\$ -	\$ 270,814
Less accumulated amortization	<u>139,919</u>	<u>15,120</u>	<u>-</u>	<u>155,039</u>
Bond issuance costs, net	<u>\$ 130,895</u>	<u>\$ (15,120)</u>	<u>\$ -</u>	<u>\$ 115,775</u>

Amortization

Amortization expense was charged to functions as follows:

Governmental Activities:

Interest on long-term debt	<u>\$ 11,541</u>
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Business-type Activities:

Water	<u>\$ 15,120</u>
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City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of December 31, 2005 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Budget Stabilization Fund	Local Street Fund	\$ 94,472
Budget Stabilization Fund	Community Development	
	Block Grant Fund	463,508
Budget Stabilization Fund	State Grant Fund	208,794
Budget Stabilization Fund	Marina and Launch Ramp Fund	85,989
		<u>\$ 852,763</u>

The outstanding balances between funds result from the payable funds having negative positions in the City's cash and investment pool.

Interfund transfers:

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
General Fund	\$ 38,367	EDC Revolving Loan Fund	\$ 833
		State Grants Fund	13,371
		Cemetery Fund	24,163
	<u>38,367</u>		<u>38,367</u>
Local Street Fund	600,000	General Fund	1,369,281
L.C. Walker Arena Fund	310,000		
Enterprise Community Fund	4,281		
Budget Stabilization Fund	100,000		
Sidewalk Replacement Fund	125,000		
Public Improvement Fund	150,000		
Marina and Launch Ramp Fund	80,000		
	<u>1,369,281</u>		<u>1,369,281</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

Interfund transfers:—Continued

<u>Transfers in</u>	<u>Amount</u>	<u>Transfers out</u>	<u>Amount</u>
Local Street Fund	\$ 300,000	Major Street and Trunkline Fund	\$ 300,865
Sidewalk Replacement Fund	865		
	<u>300,865</u>		<u>300,865</u>
Local Street Fund	174,012	Enterprise Community Fund	174,012
Sidewalk Replacement Fund	23,652	Local Street Fund	23,652
EDC Revolving Loan Fund	13,454	EC Micro Loan Fund	13,454
General Insurance Fund	1,175,004	L.C. Walker Arena Fund	28,046
		General Employee Retirement	
		System Fund	405,957
		Police and Firemen Retirement	
		System Fund	741,001
	<u>1,175,004</u>		<u>1,175,004</u>
	<u>\$ 3,094,635</u>		<u>\$ 3,094,635</u>

Each year, the General Fund transfers funds to the Major Street and Trunkline, Local Street, Sidewalk Replacement and Public Improvement funds to finance capital improvements. The General Fund also provides an operating subsidy to the L.C. Walker Arena Fund. Also, on an annual basis, the pension trust funds transfer funds to the General Insurance Fund to offset the cost of retiree healthcare benefits. Other transfers between funds are made to meet grant matching requirements or other operational needs.

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ 6,578,640	\$ 1,132,879
Receivables	307,518	-
Special assessments	3,565,984	-
Grants	-	1,250,791
Total deferred revenue for governmental funds	<u>\$ 10,452,142</u>	<u>\$ 2,383,670</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE I—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended December 31, 2005.

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due within one year
Governmental activities:					
Intergovernmental					
contractual debt	\$ 976,900	\$ 456,076	\$ 150,000	\$ 1,282,976	\$ 170,000
Michigan Transportation					
Fund debt	2,234,593	-	586,997	1,647,596	615,000
Special assessment debt	2,610,000	-	380,000	2,230,000	355,000
Installment purchase					
agreement	-	605,824	-	605,824	50,000
Compensated absences	<u>1,567,792</u>	<u>1,076,590</u>	<u>1,250,125</u>	<u>1,394,257</u>	<u>232,702</u>
Governmental activity					
long-term liabilities	<u>\$ 7,389,285</u>	<u>\$ 2,138,490</u>	<u>\$ 2,367,122</u>	<u>\$ 7,160,653</u>	<u>\$ 1,422,702</u>
Business-type activities:					
Revenue debt	\$ 17,325,050	\$ 5,416,234	\$ 425,469	\$ 22,315,815	\$ 1,000,000
Intergovernmental					
contractual debt	4,779,656	459,539	1,633,178	3,606,017	1,060,000
Compensated absences	<u>177,813</u>	<u>134,262</u>	<u>144,817</u>	<u>167,258</u>	<u>28,434</u>
Business-type activity					
long-term liabilities	<u>\$ 22,282,519</u>	<u>\$ 6,010,035</u>	<u>\$ 2,203,464</u>	<u>\$ 26,089,090</u>	<u>\$ 2,088,434</u>
Component units:					
Revenue debt	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000	\$ -
General obligation debt	<u>8,206,982</u>	<u>-</u>	<u>184,421</u>	<u>8,022,561</u>	<u>200,000</u>
Component unit long-					
term liabilities	<u>\$ 9,206,982</u>	<u>\$ -</u>	<u>\$ 184,421</u>	<u>\$ 9,022,561</u>	<u>\$ 200,000</u>

Governmental activities:

Intergovernmental contractual debt:

\$1,276,900 Non-interest bearing State of Michigan urban land assembly loan of 1999 payable in annual installments of \$150,000 to \$276,900 through October 31, 2009	\$ 826,900
\$700,000 Non-interest bearing State of Michigan urban land assembly loan of 2005 payable in annual installments of \$20,000 to \$120,000 through September 1, 2015	456,076

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:—Continued

Michigan Transportation Fund debt:

\$2,245,000 Michigan Transportation Fund bonds of 2002 for street improvements payable in annual installments of \$385,000 to \$400,000 through June 1, 2008; interest at 2.5% to 3.13%	\$ 1,175,000
Plus bond premium	2,596

\$1,950,000 Michigan Transportation Fund bonds of 1998 payable in annual installments of \$230,000 to \$240,000 through December 1, 2007; interest at 4.2% to 4.25%	470,000
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Special assessment debt:

\$1,495,000 Special assessment improvement bonds of 1998 payable in annual installments of \$60,000 to \$165,000 through April 1, 2009; interest at 4.00%	450,000
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\$825,000 Special assessment improvement bonds of 2000 payable in annual installments of \$70,000 to \$90,000 through April 1, 2010; interest at 4.65% to 5.00%	415,000
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\$1,575,000 Capital improvement bonds of 2003 payable in annual installments of \$105,000 to \$150,000 through June 1, 2016; interest at 2.00% to 4.05%	1,365,000
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Installment purchase agreement:

\$605,824 Note payable to bank in annual installments of \$49,785 to \$72,658 through April 1, 2015; interest at 3.83%	605,824
	<hr/> 5,766,396
Compensated absences	<hr/> 1,394,257
	<hr/> <hr/> \$ 7,160,653

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities:

Revenue debt:

\$5,465,000 Water supply system bonds of 1993 payable in two installments of \$450,000 from May 1, 2012 through May 1, 2013; interest at 4.50%	\$ 900,000
Less bond discount	(13,056)
 \$9,575,000 Water supply system bonds of 1999 payable in annual installments of \$130,000 to \$800,000 through May 1, 2019; interest at 4.05% to 4.75%	 7,590,000
Less bond discount	(61,129)
 \$13,900,000 Drinking Water State Revolving Fund loan of 2004 payable in annual installments of \$565,000 to \$840,000 through October 1, 2025; interest at 2.13%	 13,900,000

Intergovernmental contractual debt:

\$6,990,000 Contractual obligation of 2002 for County wastewater debt payable in annual installments of \$1,038,885 to \$1,058,767 through 2008; interest at 5.00%	3,146,478
 \$6,497,750 Contractual obligation for County wastewater debt payable beginning in 2008; interest at 1.625%	 459,539
	<u>25,921,832</u>
Compensated absences	167,258
	<u>\$ 26,089,090</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Component units:

Revenue debt:

\$1,000,000 Non-interest bearing Downtown Development Authority promissory note to Muskegon County payable August 30, 2019	\$ 1,000,000
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General obligation debt:

\$4,005,000 Downtown Development Authority tax increment refund bonds of 2001 payable in annual installments of \$200,000 to \$335,000 through June 1, 2018; interest at 4.00% to 5.00%	3,305,000
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\$4,725,000 Local Development Finance Authority tax increment bonds of 2002 payable in annual installments of \$80,000 to \$400,000 through November 1, 2025; interest at 3.25% to 4.85%	4,725,000
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Less bond discount	(7,439)
	<u>\$ 9,022,561</u>

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The special assessment bonds are backed by the limited full faith and credit of the City.

Improvements continue to be made to the former mall property. The City has not drawn down the final \$243,924 from the State of Michigan urban land assembly loan of 2005 as of December 31, 2005. This amount will be drawn down during 2006 to fund additional improvements.

The County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE I—LONG-TERM DEBT—Continued

Effective January 1, 2005, the wastewater service agreement between the County of Muskegon and thirteen local units, including the City of Muskegon, was amended to provide financial relief to the County's largest industrial user. Under terms of the amendment, the allocation of debt service charged to each local unit user will increase. The Sewer Fund's total debt obligation and annual payments on that obligation decreased by about 15 percent. This is because the major industrial user that is recipient of the relief measure is a City of Muskegon sewer customer. The City carries on its books the portion of the debt guaranteed by the industrial user since it is ultimately liable for repayment of this debt. The financial impact on the City in 2005 was \$110,911. This bond will be fully retired in 2008. Additional County wastewater debt is paid by local unit users through user charges based on metered sewage flows. Payments on these issues will increase for all local units, including the City, by approximately 45 percent. The financial impact on the City in 2005 was approximately \$84,000.

The \$4,725,000 Local Development Finance Authority (LDFA) tax increment bonds of 2002 are partially guaranteed by the Community Foundation for Muskegon County. Beginning in 2006, if LDFA tax increment revenues are not sufficient to cover debt service costs in any year, the Foundation has agreed to pay one-half of such shortfall, up to \$75,000 annually. This commitment extends through December 31, 2016.

The City was in compliance in all material respects with all the revenue bond ordinances at December 31, 2005.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2005 follows:

Year ending December 31,	Governmental activities		Business-type activities		Component units	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,189,785	\$ 148,785	\$ 2,078,767	\$ 820,098	\$ 200,000	\$ 350,639
2007	1,241,921	114,267	2,093,826	736,423	280,000	342,639
2008	954,148	78,649	2,578,424	652,322	290,000	331,839
2009	613,371	59,838	1,110,000	567,463	300,000	320,219
2010	268,894	48,695	1,150,000	533,023	310,000	307,811
2011-2015	1,345,681	129,405	6,320,000	2,083,440	2,425,000	1,293,857
2016-2020	150,000	3,036	6,625,000	955,235	3,815,000	663,733
2021-2025	-	-	4,040,000	261,057	1,410,000	210,472
	<u>\$ 5,763,800</u>	<u>\$ 582,675</u>	<u>\$ 25,996,017</u>	<u>\$ 6,609,061</u>	<u>\$ 9,030,000</u>	<u>\$ 3,821,209</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE I—LONG-TERM DEBT—Continued

Annual debt service requirements to maturity by type of debt as of December 31, 2005 follows:

Year ending December 31,	General Obligation Bonds	Revenue Bonds		Intergovernmental		Installment Purchase Agreement
	Component units	Business-type activities	Component units	Governmental activities	Business-type activities	Governmental activities
2006	\$ 550,639	\$ 1,682,774	\$ -	\$ 170,000	\$ 1,216,091	\$ 72,035
2007	622,639	1,677,037	-	220,000	1,153,212	72,223
2008	621,839	1,680,378	-	220,000	1,550,368	72,419
2009	620,219	1,677,463	-	296,900	-	72,624
2010	617,811	1,683,023	-	20,000	-	72,838
2011-2015	3,718,857	8,403,440	-	356,076	-	367,719
2016-2020	3,478,733	7,580,235	1,000,000	-	-	-
2021-2025	1,620,472	4,301,057	-	-	-	-
	<u>\$ 11,851,209</u>	<u>\$ 28,685,407</u>	<u>\$ 1,000,000</u>	<u>\$ 1,282,976</u>	<u>\$ 3,919,671</u>	<u>\$ 729,858</u>

Year ending December 31,	Special Assessment Governmental activities	Michigan Transportation Fund Bonds Governmental activities
2006	\$ 433,175	\$ 663,360
2007	395,828	668,137
2008	344,285	396,093
2009	303,685	-
2010	224,751	-
2011-2015	751,291	-
2016-2020	153,036	-
2021-2025	-	-
	<u>\$ 2,606,051</u>	<u>\$ 1,727,590</u>

NOTE J—DESIGNATED FUND BALANCE

Unreserved fund balances designated for specific purposes as of December 31, 2005 were as follows:

Public Improvement Fund	
Designated for fire equipment replacement	\$ 1,233,661
Designated for Pere Marquette Park improvements	<u>6,102</u>
	<u>\$ 1,239,763</u>

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE K—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMRMA for its insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. A \$100,000 deductible is maintained to place the responsibility for small charges with the City. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2005 and 2004 were as follows:

Year ended <u>December 31,</u>	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
2005	\$ 117,577	\$ 93,993	\$ 94,003	\$ 117,567
2004	120,829	80,081	83,333	117,577

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City is self-insured for employee health care benefits for those employees selecting the City plan over other options. Under this plan, the General Insurance Fund provides coverage for up to a maximum of \$125,000 per covered individual. As of December 31, 2005, the claims liability including incurred but not reported claims was \$31,102. A liability was recorded in the accompanying financial statements for the estimated claims liability. The claims liability was based on past experience, a review of pending claims and other social and economic factors. The above estimate was not discounted and there were no outstanding claims for which annuity contracts have been purchased in the claimant's name. No significant reductions in insurance coverage were made in the last fiscal year. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years. Changes in the fund's claim liability amount in 2005 and 2004 were as follows:

Year ended <u>December 31,</u>	Balance at beginning of year	Current year claims and changes in estimates	Claims payments	Balance at end of year
2005	\$ 85,879	\$ 1,227,436	\$ 1,282,213	\$ 31,102
2004	97,521	1,376,480	1,388,122	85,879

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE K—OTHER INFORMATION—Continued

Contingencies

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

The City has advanced funds in the amount of \$1,933,844 to the Downtown Development Authority (DDA) for activities involving redevelopment of the downtown area. Repayment of these advances is contingent upon collection of tax increment revenue (or "Proposal A" replacement revenues from the State) in excess of the amounts needed for debt service payments on outstanding bond issues. Repayment was uncertain and the advances were written off for financial statement purposes. If excess tax increment revenue (or "Proposal A" replacement revenues from the State) becomes available, the City will apply such revenue to the repayment of the advances. The advances outstanding as of December 31, 2005 were as follows:

<u>Date of obligation</u>	<u>Obligation amount</u>	<u>Outstanding balance</u>	<u>Interest rate</u>
8/10/1989	\$ 1,150,000	\$ 400,000	0.0 %
8/31/1989	783,844	7,147,000	7.0

Commitments

At December 31, 2005, the City had entered into various agreements for construction projects. Below is a summary of those agreements:

<u>Fund</u>	<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining commitment</u>
Major Street and Trunkline	Shoreline Drive landscaping and street lighting	\$ -	\$ 182,908
Local Street	Mall property redevelopment - Western Avenue	859,970	770,405
Local Street	Mall property redevelopment (ULA) - other streets	456,075	243,925
Public Improvement	Two new fire trucks	-	1,031,390
Water	Water filtration plant improvements	18,852,754	354,771
Marina and Launch Ramp	Marina improvements	85,506	967,778

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE L—PENSION PLANS

Defined Benefit Pension Plans

The primary government maintains two separate single employer contributory pension plans – the General Employees Retirement System and the Policemen and Firemen Retirement System – which cover all active full-time employees of the City. The pension plans are maintained as pension trust funds and are included as part of the City’s reporting entity. Staff costs associated with administering the plans are paid from the City’s General Fund. Contractual service costs for investment management and consulting, actuarial services, custodial services and similar items are paid from investment earnings of the funds. Financial statements for the pension plans can be obtained from the administrative office at 933 Terrace Street, Muskegon, MI 49443.

Plan Description. The following schedule is derived from the respective actuarial reports and from City information and reflects accounting policies, membership and plan provisions and actuarial assumptions for the two pension plans as of December 31, 2004:

	<u>General Employees</u>	<u>Policemen and Firemen</u>
General Information:		
Authority	City Ordinance	City Ordinance
Basis of accounting	Accrual	Accrual
Asset valuation:		
Reporting	Fair Value	Fair Value
Actuarial valuation	Four-Year Smoothed Market	Four-Year Smoothed Market
Valuation date	December 31, 2004	December 31, 2004
Actuarial cost method	Entry Age Normal - level percent of compensation	Entry Age Normal - level percent of compensation
Amortization method	Level Percent (Open)	Level Percent (Open)
Remaining amortization period	10 years	10 years
Non-government investments in excess of 5%	None	None
Membership and Plan Provisions:		
Members		
Active participants	151	120
Retirees and beneficiaries receiving benefits	155	155
Terminated plan members entitled to but not yet receiving benefits	28	6
Member contributions		
First \$4,200 of earnings	3% - 5%	6%
Excess of \$4,200 of earnings	5%	6%

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE L—PENSION PLANS—Continued

Defined Benefit Pension Plans—Continued

	<u>General Employees</u>	<u>Policemen and Firemen</u>
Membership and Plan Provisions:—Continued		
Normal retirement benefit		
Retirement age	55 - 60	53 - 55
Years of service (minimum)	5 - 30	10 - 25
Accrual (first \$4,200 final average compensation)	1.9% - 2.25%	2.5% - 2.6%
Final average compensation in excess of \$4,200	1.9% - 2.25%	2.5% - 2.6%
Maximum (% of final average compensation)	None	75% - 85%
Years to Vest	5 - 10	10
Assumptions		
Investment earnings	8%	8%
Salary increases	5% - 8.8%	5% - 8%
Investment and salary assumptions include inflation at 5.0%		

Basis of Accounting. The pension plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period they are due. The City's contributions to the plans are recognized when due and the City has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Funding Policy. The City is obligated by the state constitution to make annual contributions to each of its pension plans based on actuarially computed percentages of covered wages in amounts sufficient to cover the normal cost of benefits and amortize prior service liabilities over a period of future years. Actuarial assumptions used in determining the annual funding requirements are set by the boards of trustees of each system. During the year ended December 31, 2005, contributions were made to the plans in accordance with contribution requirements determined by actuarial valuations of the plans as of December 31, 2003, and were as follows:

	<u>General Employees</u>	<u>Policemen and Firemen</u>
Retirement contributions - members	\$ 316,622	\$ 410,312
Retirement contributions - City	<u>513,998</u>	<u>1,224,402</u>
	<u>\$ 830,620</u>	<u>\$ 1,634,714</u>

Benefits. Pension benefit levels are established through negotiation and contract with the City's various collective bargaining units. Benefit levels for non-represented employees are established by policy of the City Commission.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE L—PENSION PLANS—Continued

Defined Benefit Pension Plans—Continued

Investments. Investments are reported at fair value which is determined using selected bases as follows: short-term investments are reported at cost which approximates fair value; securities traded on a national exchange are valued at the last reported sales price; investments that do not have established fair values are reported at estimated fair value; and, cash deposits are reported at carrying amount which reasonably estimates fair value. The following summarizes the carrying values of investments of the City's two pension plans at December 31, 2005:

	<u>Cost</u>	<u>Fair value</u>
General Employees		
Bond mutual funds	\$ 9,804,012	\$ 10,745,061
Stock mutual funds	11,437,777	18,809,294
Other instruments	<u>1,014,763</u>	<u>1,014,763</u>
	<u>\$ 22,256,552</u>	<u>\$ 30,569,118</u>
Policemen and Firemen		
Bond mutual funds	\$ 13,545,639	\$ 16,404,840
Stock mutual funds	17,719,600	29,329,535
Other instruments	<u>915,768</u>	<u>915,768</u>
	<u>\$ 32,181,007</u>	<u>\$ 46,650,143</u>

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollar amounts in thousands)

	<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
General Employees Retirement System							
12/31/99	\$ 26,388	\$ 22,231	\$ (4,157)	119 %	\$ 6,120	-	%
12/31/00	27,340	23,037	(4,303)	119	6,271	-	
12/31/01	27,797	24,566	(3,231)	113	6,297	-	
12/31/02	26,882	25,872	(1,010)	104	6,546	-	
12/31/03	27,132	27,401	269	99	6,781	4	
12/31/04	27,968	28,555	587	98	6,318	9	
Policemen and Firemen Retirement System							
12/31/99	\$ 39,643	\$ 34,736	\$ (4,907)	114 %	\$ 6,246	-	%
12/31/00	40,599	37,547	(3,052)	108	6,418	-	
12/31/01	40,381	38,592	(1,789)	105	6,070	-	
12/31/02	38,280	41,511	3,231	92	6,391	51	
12/31/03	38,085	42,981	4,896	89	6,656	74	
12/31/04	39,026	43,845	4,819	89	6,583	73	

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE L—PENSION PLANS—Continued

Defined Benefit Pension Plans—Continued

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Employer Contributions

<u>Year ending</u>	<u>Approximate annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
General Employees Retirement System			
12/31/00	\$ 50,987	100 %	\$ -
12/31/01	-	-	-
12/31/02	-	-	-
12/31/03	121,414	100	-
12/31/04	382,193	100	-
12/31/05	513,998	100	-
Policemen and Firemen Retirement System			
12/31/00	\$ 98,491	100 %	\$ -
12/31/01	96,549	100	-
12/31/02	290,431	100	-
12/31/03	435,687	100	-
12/31/04	1,035,172	100	-
12/31/05	1,224,402	100	-

Effective, November 2005, the retirement plans of all nonunion employees were moved from the City's two defined benefit plans to an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). In addition, effective January 1, 2005, all new nonunion employees and firefighters hired by the City will be covered by two new defined contribution retirement plans offered by MERS and administered by ICMA Retirement Corporation (ICMA). The City hired no new employees in these two employee groups during the year ended December 31, 2005. Effective January 1, 2006, all new clerical employees will be covered by a third defined contribution retirement plan offered by MERS and administered by ICMA.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

Then Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided by Internal Revenue Code Section 401(f).

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE M—OTHER POSTEMPLOYMENT BENEFITS

The City administers a defined benefit postemployment healthcare plan, the City of Muskegon Post-Retirement Medical Plan (Plan). Financial statements for the Plan can be obtained from the administrative office at 933 Terrace Street, Muskegon, MI 49443.

Summary of Significant Accounting Policies

Basis of Accounting. The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions, if any, are recognized in the period in which the contributions are made. Contributions by the City to the Plan are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when paid according to the terms of the Plan.

Method Used to Value Investments. Plan investments are recorded at fair market value.

Plan Descriptions and Contribution Information

Membership of the plan consisted of the following at December 31, 2004:

Retirees, disabled, and beneficiaries receiving benefits	296
Terminated Plan members entitled to but not yet receiving benefits	-
Active Plan members	272

Plan Description. The Plan is a single employer defined benefit postemployment healthcare plan that covers retired employees of the City. The Plan provides health insurance to eligible retirees and their spouses. Public Act 149 of 1999 assigns the authority to establish and amend the benefit provisions of the Plan to the City Commission.

Contributions. Contributions are established and may be amended by the City Commission based upon the results of collective bargaining with various employee groups. Retired plan members and beneficiaries currently receiving benefits are not required to contribute toward the cost of health insurance premiums. The City is required to contribute at a rate equivalent to the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 3.9 percent to 9.4 percent of annual covered payroll depending on employee group for 2004. Administrative costs of the Plan are financed through investment earnings.

Annual OPEB Costs. For 2005, the City's annual OPEB cost (expense) of \$898,022 was equal to the ARC.

Funded Status and Funding Progress

This is the first year that the City has followed the reporting requirements of GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans*. The City has elected to implement GASB 45 prospectively and therefore shows no OPEB obligation at transition.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

City of Muskegon
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE M—OTHER POSTEMPLOYMENT BENEFITS—Continued

Funded Status and Funding Progress—Continued

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of Plan members not contributing to the Plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2004, actuarial valuation, the entry-age normal actuarial cost method was used. The actuarial assumptions include a 7 percent investment rate of return and an annual healthcare trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 4 percent after six years. Both rates include a 4 percent inflation assumption. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2004, was fifteen years.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/02	\$ 7,448	\$ 16,338	\$ 8,890	46 %	\$ 12,883	69 %
12/31/03	9,289	16,615	7,326	56	13,437	55
12/31/04	10,194	17,989	7,795	57	12,911	60

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions

Year ending	Annual required contribution	Percentage contributed
12/31/03	\$ 887,102	100 %
12/31/04	967,300	100
12/31/05	898,022	100

REQUIRED SUPPLEMENTARY INFORMATION

City of Muskegon
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended December 31, 2005
(with comparative actual amounts for the year ended December 31, 2004)

	2005			Variance with final budget- positive (negative)	2004
	Budgeted amounts		Actual		
	Original	Final			
REVENUES					
Taxes					
City income tax	\$ 6,650,000	\$ 7,045,000	\$ 7,083,023	\$ 38,023	\$ 7,033,387
Property taxes	7,071,898	6,965,200	6,965,260	60	6,253,935
Industrial facilities taxes	357,027	378,700	378,744	44	398,934
Payments in lieu of taxes	80,000	88,400	88,467	67	72,816
Delinquent chargeback collected	15,000	6,200	6,275	75	7,968
Total taxes	14,173,925	14,483,500	14,521,769	38,269	13,767,040
Licenses and permits					
Business licenses	33,000	32,000	32,020	20	33,835
Liquor licenses	37,500	35,500	35,551	51	35,681
Cable TV fees	260,000	286,200	286,265	65	333,618
Housing licenses	50,000	54,100	54,194	94	46,625
Rental property registration	10,000	12,000	12,010	10	14,584
Burial permits	110,000	116,300	116,339	39	102,702
Building permits	275,000	313,300	313,392	92	350,102
Electrical permits	100,000	99,100	99,112	12	103,989
Plumbing permits	45,000	39,700	39,713	13	50,711
Mechanical permits	60,000	57,400	57,452	52	66,682
Cat licenses	-	1,900	1,905	5	485
Police gun registration	-	-	28	28	-
Total licenses and permits	980,500	1,047,500	1,047,981	481	1,139,014
Intergovernmental revenues					
Federal grants	184,717	155,600	155,648	48	233,157
State					
Grants	17,000	18,200	18,229	29	33,128
State shared revenue	4,688,657	4,592,800	4,592,852	52	4,645,348
Total intergovernmental revenues - state	4,705,657	4,611,000	4,611,081	81	4,678,476

City of Muskegon
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended December 31, 2005
(with comparative actual amounts for the year ended December 31, 2004)

	2005		Variance with	2004
	Budgeted amounts		final budget- positive (negative)	Actual
	Original	Final		
Charges for services				
Tax administration fees	233,748	231,600	39	228,801
Utility administration fees	183,439	-	-	183,439
Downtown Development Authority administration fees	10,000	10,000	-	10,000
Reimbursement for elections	13,000	14,229	29	15,626
Indirect cost reimbursements	1,035,617	1,035,612	12	1,012,708
Site plan review fee	1,000	(1,400)	-	2,700
Sale of cemetery lots	20,000	19,327	27	18,324
Police miscellaneous	70,000	100,101	1	64,685
Police impound fees	20,000	43,469	69	49,320
Landlord's alert fee	-	200	90	40
Fire protection-state property	42,000	85,482	82	45,423
Zoning fees	13,000	18,944	944	18,680
Clerk fees	4,300	3,802	2	3,162
Clerk fees - passport fees	2,000	2,280	80	2,550
Tax abatement application fees	6,000	900	(900)	13,636
Treasurer fees	33,000	95,549	49	45,909
False alarm fees	12,000	12,410	10	12,425
Miscellaneous cemetery income	24,000	18,536	36	24,722
Senior transit program fees	8,000	6,867	67	6,864
Fire miscellaneous	20,000	44,800	21	18,183
Township electrical services	-	-	-	13,608
Sanitation stickers	50,000	78,400	3,606	62,703
Lot cleanup fees	70,000	34,809	9	40,633
Reimbursements - lot mowing and demolitions	70,000	34,813	13	36,820
Special events reimbursements	100,000	97,454	54	101,822
Recreation program fees	126,000	77,413	13	105,894
Advertising	-	1,408	8	-
Total charges for services	2,167,104	2,065,500	4,361	2,138,677

City of Muskegon
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended December 31, 2005
(with comparative actual amounts for the year ended December 31, 2004)

	2005			Variance with final budget- positive (negative)	2004
	Budgeted amounts		Actual		
	Original	Final			
Fines and forfeitures					
Income tax - penalty and interest	190,000	284,100	284,136	36	293,971
Late fees on current taxes	25,000	111,300	111,393	93	89,452
Interest on late invoices	2,000	1,300	1,769	469	876
Parking fines	100,000	97,500	97,566	66	100,425
Court fines	160,000	151,800	151,885	85	137,440
Total fines and forfeitures	477,000	646,000	646,749	749	622,164
Interest and rental income					
Investment earnings	70,000	187,300	187,380	80	17,276
Flea market	29,000	24,400	24,497	97	31,998
Farmers' market	32,000	31,900	31,982	82	25,829
City right of way rental	4,400	4,400	4,400	-	4,400
Parking rentals	5,000	2,800	2,800	-	3,245
McGraft park rentals	46,288	44,900	44,904	4	49,181
Other park rentals	28,365	37,100	37,159	59	28,838
Total interest and rental income	215,053	332,800	333,122	322	160,767
Other					
Sale of land and assets	1,000	2,500	2,512	12	-
Police sale and auction proceeds	4,000	1,600	1,664	64	1,577
CDBG program reimbursements	400,000	222,100	206,917	(15,183)	291,983
Contributions	11,000	12,500	12,538	38	18,030
Contribution - Veteran's Park maintenance	17,250	-	15,230	15,230	20,449
Community Foundation for Muskegon County	8,000	55,000	55,000	-	8,000
Miscellaneous reimbursements	1,000	-	-	-	-
Miscellaneous and sundry	15,000	14,500	14,202	(298)	21,249
Total other	457,250	308,200	308,063	(137)	361,288
Total revenues	23,361,206	23,650,100	23,694,274	44,174	23,100,583

City of Muskegon
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended December 31, 2005
(with comparative actual amounts for the year ended December 31, 2004)

	2005			Variance with final budget- positive (negative)	2004
	Budgeted amounts		Actual		
	Original	Final			
EXPENDITURES					
Current					
Public representation services					
City commission	87,658	81,000	77,980	3,020	83,235
City promotions and public relations	15,188	14,000	12,278	1,722	10,476
City manager	206,199	211,000	208,603	2,397	199,208
Contributions to outside agencies	178,160	182,000	179,287	2,713	147,294
City attorney	401,000	409,000	408,569	431	429,129
Total public representation services	888,205	897,000	886,717	10,283	869,342
Administrative services					
Administration	169,748	162,000	160,411	1,589	150,458
City clerk	342,947	319,000	317,602	1,398	311,589
Civil service	168,000	185,000	181,916	3,084	162,874
Julia Hackley internships	8,000	8,000	7,630	370	8,931
Affirmative action	86,198	83,000	81,029	1,971	70,815
Total administrative services	774,893	757,000	748,588	8,412	704,667
Financial services					
Finance administration	415,791	428,000	424,388	3,612	397,245
Assessing	406,461	412,000	410,601	1,399	406,895
Income tax administration	340,900	346,000	343,223	2,777	313,096
Information systems	336,411	328,000	324,814	3,186	336,909
City treasurer	388,201	405,000	402,688	2,312	375,131
Total financial services	1,887,764	1,919,000	1,905,714	13,286	1,829,276
Public safety					
Police department	8,220,664	7,993,000	7,989,348	3,652	7,672,617
Fire department	3,488,809	3,656,000	3,653,206	2,794	3,601,008
Fire safety inspections	932,324	948,000	945,377	2,623	999,056
Total public safety	12,641,797	12,597,000	12,587,931	9,069	12,272,681

City of Muskegon
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended December 31, 2005
(with comparative actual amounts for the year ended December 31, 2004)

	2005			2004
	Budgeted amounts		Variance with	
	Original	Final	final budget- positive (negative)	Actual
Public works				
Street lighting	533,600	558,000	1,332	506,590
Community event support	65,720	29,000	990	41,921
Senior citizen transit	61,987	53,000	1,228	49,204
General sanitation	1,566,550	1,563,000	2,004	1,529,206
Recycling	165,027	159,000	787	159,996
Storm water management	13,917	18,000	1,680	12,191
City hall maintenance	248,666	293,000	3,906	244,405
Total public works	2,655,467	2,673,000	11,927	2,543,513
Community and economic development				
Planning, zoning and economic development	453,448	452,000	3,006	400,017
Environmental services	312,355	299,000	2,200	397,055
Total community and economic development	765,803	751,000	5,206	797,072
Culture and recreation				
Parks maintenance	1,131,871	1,232,000	3,557	1,198,518
McGraft park maintenance	46,881	51,000	592	60,489
General and inner city recreation programs	355,869	286,000	(4,956)	350,879
Cemeteries maintenance	464,958	579,000	2,716	482,300
Forestry	-	-	-	87,519
Graffiti removal	5,000	4,000	1,457	4,601
Parking operations	35,040	16,000	1,103	27,342
Farmers' market and flea market	30,147	36,000	2,255	48,052
Total culture and recreation	2,069,766	2,204,000	6,724	2,259,700
Other governmental functions				
Insurance premiums	349,375	339,000	175	322,233
Other	450,000	61,000	(99,234)	404,950
Total other governmental functions	799,375	400,000	(99,059)	727,183

City of Muskegon
BUDGETARY COMPARISON SCHEDULE

General Fund

For the year ended December 31, 2005

(with comparative actual amounts for the year ended December 31, 2004)

	2005			2004
	Budgeted amounts		Variance with	
	Original	Final	final budget- positive (negative)	Actual
Debt service				
Principal	-	-	-	205,000
Interest and fees	3,000	4,000	720	11,884
Total debt service	3,000	4,000	720	216,884
Capital outlay				
Total expenditures	10,000	60,000	6,486	11,373
	22,496,070	22,262,000	(26,946)	22,231,691
Excess of revenues over (under) expenditures	865,136	1,388,100	17,228	868,892
OTHER FINANCING SOURCES (USES)				
Transfers in	70,000	38,200	167	301,209
Transfers out	(890,000)	(1,385,000)	15,719	(1,156,328)
Total other financing sources (uses)	(820,000)	(1,346,800)	15,886	(855,119)
Net change in fund balance	\$ 45,136	\$ 41,300	\$ 33,114	13,773
Fund balance at beginning of year			2,445,191	2,431,418
Fund balance at end of year			\$ 2,519,605	\$ 2,445,191

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
Major Street and Trunkline Fund
For the year ended December 31, 2005

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Intergovernmental revenues				
Federal	\$ 600,000	\$ 585,000	\$ 585,259	\$ 259
State	6,210,312	5,889,600	5,791,760	(97,840)
Charges for services	274,500	275,500	275,847	347
Investment earnings	25,000	178,000	178,066	66
Other	275,500	279,400	296,652	17,252
Total revenues	7,385,312	7,207,500	7,127,584	(79,916)
EXPENDITURES				
Current				
Highways, streets and bridges	6,912,219	6,194,000	6,294,127	(100,127)
Debt service				
Principal	585,000	585,000	585,000	-
Interest and fees	66,610	66,610	66,608	2
Total expenditures	7,563,829	6,845,610	6,945,735	(100,125)
Excess of revenues over (under) expenditures	(178,517)	361,890	181,849	(180,041)
OTHER FINANCING USES				
Transfers out	(299,646)	(301,390)	(300,865)	525
Net change in fund balance	<u>\$ (478,163)</u>	<u>\$ 60,500</u>	<u>(119,016)</u>	<u>\$ (179,516)</u>
Fund balance at January 1, 2005			966,165	
Fund balance at December 31, 2005			<u>\$ 847,149</u>	

OTHER SUPPLEMENTAL INFORMATION

DESCRIPTION OF OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

The special revenue funds are used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specific purposes.

Local Street – to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of local streets within the City.

L.C. Walker Arena – to account for revenues received for the operation and maintenance of the L.C. Walker Arena.

Criminal Forfeitures – to account for receipts generated through the sale of assets seized through criminal court proceedings.

Budget Stabilization – to account for funds appropriated from the City's General Fund for the purpose of mitigating adverse affects on the City's budget from downturns in the business cycle.

Enterprise Community – to account for federal grant revenues received under the Title XX Enterprise Communities program.

Land Reutilization – to account for proceeds received from the sale of tax reverted properties and costs associated with improving and marketing these properties.

Tree Replacement – to account for contributions and other revenues earmarked for tree replacement throughout the City.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

Sidewalk Replacement – to account for resources allocated for a multi-year citywide sidewalk replacement program.

Public Improvement – to account for grants, private contributions, sale of property and other financial resources used to finance various capital projects.

Michcon Remediation – to account for reimbursements received from Michcon Gas Company for environmental remediation of their former downtown site.

EC Micro Loan – to account for grant funds received through the Federal Enterprise Community program for purposes of making small loans to startup business enterprises and to account for repayment of those loans.

EDC Revolving Loan – to account for funds received upon repayment of Urban Development Action Grant loans and subsequently reloaned to small business enterprises.

Community Development Block Grant – to account for categorical grants received from the U. S. Department of Housing and Urban Development for the construction of major city public improvements and the rehabilitation of residential housing and other qualifying expenditures.

State Grants – to account for grant revenues received from the State of Michigan and earmarked for the purpose of improvements and/or rehabilitation of City property, environmental remediation at lakeshore sites or new infrastructure in the City's downtown.

HOME Rehabilitation – to account for grant revenues received from the U. S. Department of Housing and Urban Development for the purpose of providing housing assistance to low and moderate income households in the City.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Cemetery Perpetual Care – to account for charges for services collected and investment income earned and to account for transfers to the general fund to partially cover cemetery perpetual care expenses.

City of Muskegon
COMBINING BALANCE SHEET
Other Governmental Funds
December 31, 2005

ASSETS					Permanent Fund - Cemetery Perpetual Care
	Total other governmental funds	Special Revenue Funds	Capital Projects Funds		
Cash and investments	\$ 4,643,834	\$ 674,384	\$ 2,763,682	\$	1,205,768
Receivables					
Accounts and loans (net of allowance for uncollectibles)	711,462	249,380	455,956		6,126
Special assessments	2,753,481	1,796,505	956,976		-
Due from other governmental units	1,159,882	572,303	587,579		-
Due from other funds	852,763	852,763	-		-
Prepaid items	5,866	5,866	-		-
Total assets	\$ 10,127,288	\$ 4,151,201	\$ 4,764,193	\$	1,211,894
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 222,023	\$ 204,567	\$ 15,107	\$	2,349
Accrued liabilities	28,220	20,505	7,715		-
Due to other funds	766,774	94,472	672,302		-
Deferred revenue	2,869,376	1,746,413	1,122,963		-
Total liabilities	3,886,393	2,065,957	1,818,087		2,349
Fund balances					
Reserved for:					
Prepaid items	4,965	4,965	-		-
Capital projects	1,706,343	-	1,706,343		-
Perpetual care	1,186,655	-	-		1,186,655
Unreserved					
Designated, reported in capital projects funds	1,239,763	-	1,239,763		-
Undesignated, reported in					
Special revenue funds	2,080,279	2,080,279	-		-
Permanent funds	22,890	-	-		22,890
Total fund balances	6,240,895	2,085,244	2,946,106		1,209,545
Total liabilities and fund balances	\$ 10,127,288	\$ 4,151,201	\$ 4,764,193	\$	1,211,894

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended December 31, 2005

	Total other governmental funds	Special Revenue Funds	Capital Projects Funds	Permanent Fund - Cemetery Perpetual Care
REVENUES				
Intergovernmental revenues				
Federal	\$ 2,459,262	\$ 208,333	\$ 2,250,929	\$ -
State	1,107,299	819,641	287,658	-
Local	735,640	529,618	206,022	-
Charges for services	801,358	722,736	51,986	26,636
Fines and forfeitures	1,551	1,551	-	-
Investment earnings	172,977	27,766	121,054	24,157
Other	1,149,443	720,180	429,263	-
Total revenues	6,427,530	3,029,825	3,346,912	50,793
EXPENDITURES				
Current				
Public safety	36,601	36,601	-	-
Highways, streets and bridges	3,237,713	3,237,713	-	-
Community and economic development	38,602	38,602	-	-
Culture and recreation	1,104,233	1,104,233	-	-
Debt service				
Principal	530,000	-	530,000	-
Interest and fees	96,183	-	96,183	-
Capital outlay	3,680,568	-	3,680,568	-
Total expenditures	8,723,900	4,417,149	4,306,751	-
Excess of revenues over (under) expenditures	(2,296,370)	(1,387,324)	(959,839)	50,793
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	827,141	-	827,141	-
Proceeds from long-term debt	1,061,900	456,076	605,824	-
Transfers in	1,801,264	1,488,293	312,971	-
Transfers out	(277,531)	(225,710)	(27,658)	(24,163)
Total other financing sources (uses)	3,412,774	1,718,659	1,718,278	(24,163)
Net change in fund balances	1,116,404	331,335	758,439	26,630
Fund balances at January 1, 2005	5,124,491	1,753,909	2,187,667	1,182,915
Fund balances at December 31, 2005	\$ 6,240,895	\$ 2,085,244	\$ 2,946,106	\$ 1,209,545

City of Muskegon
COMBINING BALANCE SHEET
Other Special Revenue Funds
December 31, 2005

	Total other special revenue funds	Local Street	L.C. Walker Arena	Criminal Forfeitures	Budget Stabilization	Enterprise Community	Land Reutilization	Tree Replacement
ASSETS								
Cash and investments	\$ 674,384	\$ -	\$ 5,859	\$ 133,244	\$ 497,237	\$ -	\$ 24,483	\$ 13,561
Receivables (net of allowance for uncollectibles)								
Accounts and loans	249,380	179,328	70,052	-	-	-	-	-
Special assessments	1,796,505	1,796,505	-	-	-	-	-	-
Due from other governmental units	572,303	572,303	-	-	-	-	-	-
Due from other funds	852,763	-	-	-	852,763	-	-	-
Prepaid items	5,866	2,841	3,025	-	-	-	-	-
Total assets	\$ 4,151,201	\$ 2,550,977	\$ 78,936	\$ 133,244	\$ 1,350,000	\$ -	\$ 24,483	\$ 13,561
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 204,567	\$ 127,755	\$ 76,812	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	20,505	20,505	-	-	-	-	-	-
Due to other funds	94,472	94,472	-	-	-	-	-	-
Deferred revenue	1,746,413	1,746,413	-	-	-	-	-	-
Total liabilities	2,065,957	1,989,145	76,812	-	-	-	-	-
Fund balances								
Reserved for prepaid items	4,965	2,841	2,124	-	-	-	-	-
Unreserved	2,080,279	558,991	-	133,244	1,350,000	-	24,483	13,561
Total fund balances	2,085,244	561,832	2,124	133,244	1,350,000	-	24,483	13,561
Total liabilities and fund balances	\$ 4,151,201	\$ 2,550,977	\$ 78,936	\$ 133,244	\$ 1,350,000	\$ -	\$ 24,483	\$ 13,561

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Special Revenue Funds
For the year ended December 31, 2005

	Total other special revenue funds	Local Street	L.C. Walker Arena	Criminal Forfeitures	Budget Stabilization	Enterprise Community	Land Reutilization	Tree Replacement
REVENUES								
Intergovernmental revenues								
Federal	\$ 208,333	\$ -	\$ -	\$ -	\$ -	\$ 208,333	\$ -	\$ -
State	819,641	819,641	-	-	-	-	-	-
Local	529,618	469,618	60,000	-	-	-	-	-
Charges for services	722,736	-	718,636	-	-	-	-	4,100
Fines and forfeitures	1,551	-	-	1,551	-	-	-	-
Investment earnings	27,766	22,848	-	3,996	-	-	608	314
Other	720,180	715,874	4,306	-	-	-	-	-
Total revenues	3,029,825	2,027,981	782,942	5,547	-	208,333	608	4,414
EXPENDITURES								
Current								
Public safety	36,601	-	-	36,601	-	-	-	-
Highways, streets and bridges	3,237,713	3,237,713	-	-	-	-	-	-
Community and economic development	38,602	-	-	-	-	38,602	-	-
Culture and recreation	1,104,233	-	1,101,087	-	-	-	-	3,146
Total expenditures	4,417,149	3,237,713	1,101,087	36,601	-	38,602	-	3,146
Excess of revenues over (under) expenditures	(1,387,324)	(1,209,732)	(318,145)	(31,054)	-	169,731	608	1,268
OTHER FINANCING SOURCES (USES)								
Proceeds from long-term debt	456,076	456,076	-	-	-	-	-	-
Transfers in	1,488,293	1,074,012	310,000	-	100,000	4,281	-	-
Transfers out	(225,710)	(23,652)	(28,046)	-	-	(174,012)	-	-
Total other financing sources (uses)	1,718,659	1,506,436	281,954	-	100,000	(169,731)	-	-
Net change in fund balances	331,335	296,704	(36,191)	(31,054)	100,000	-	608	1,268
Fund balances at January 1, 2005	1,753,909	265,128	38,315	164,298	1,250,000	-	23,875	12,293
Fund balances at December 31, 2005	\$ 2,085,244	\$ 561,832	\$ 2,124	\$ 133,244	\$ 1,350,000	\$ -	\$ 24,483	\$ 13,561

City of Muskegon
BUDGETARY COMPARISON SCHEDULE
Other Special Revenue Funds
For the year ended December 31, 2005

	Local Street			L.C. Walker Arena			Criminal Forfeitures		
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES									
Intergovernmental revenues									
Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State	819,500	819,641	141	-	-	-	-	-	-
Local	469,600	469,618	18	60,000	60,000	-	-	-	-
Charges for services	-	-	-	718,600	718,636	36	-	-	-
Fines and forfeitures	-	-	-	-	-	-	1,500	1,551	51
Investment earnings	22,800	22,848	48	-	-	-	3,900	3,996	96
Other	707,200	715,874	8,674	4,300	4,306	6	-	-	-
Total revenues	2,019,100	2,027,981	8,881	782,900	782,942	42	5,400	5,547	147
EXPENDITURES									
Current									
Public safety	-	-	-	-	-	-	38,000	36,601	1,399
Highways, streets and bridges	3,188,000	3,237,713	(49,713)	-	-	-	-	-	-
Community and economic development	-	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	1,077,000	1,101,087	(24,087)	-	-	-
Total expenditures	3,188,000	3,237,713	(49,713)	1,077,000	1,101,087	(24,087)	38,000	36,601	1,399
Excess of revenues over (under) expenditures	(1,168,900)	(1,209,732)	(40,832)	(294,100)	(318,145)	(24,045)	(32,600)	(31,054)	1,546
OTHER FINANCING SOURCES (USES)									
Proceeds from long-term debt	-	456,076	456,076	-	-	-	-	-	-
Transfers in	1,074,000	1,074,012	12	310,000	310,000	-	-	-	-
Transfers out	(24,000)	(23,652)	348	(29,000)	(28,046)	954	-	-	-
Total other financing sources (uses)	1,050,000	1,506,436	456,436	281,000	281,954	954	-	-	-
Net change in fund balances	\$ (118,900)	\$ 296,704	\$ 415,604	\$ (13,100)	\$ (36,191)	\$ (23,091)	\$ (32,600)	\$ (31,054)	\$ 1,546
Fund balances at January 1, 2005		265,128			38,315			164,298	
Fund balances at December 31, 2005		\$ 561,832			\$ 2,124			\$ 133,244	

City of Muskegon
BUDGETARY COMPARISON SCHEDULE - CONTINUED
Other Special Revenue Funds
For the year ended December 31, 2005

	Budget Stabilization			Enterprise Community			Land Reutilization		
	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)	Final budget	Actual	Variance - positive (negative)
REVENUES									
Intergovernmental revenues									
Federal	\$ -	\$ -	\$ -	\$ -	\$ 208,333	\$ 208,333	\$ -	\$ -	\$ -
State	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	-	-
Fines and forfeitures	-	-	-	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	-	600	608	8
Other	-	-	-	-	-	-	-	-	-
Total revenues	-	-	-	-	208,333	208,333	600	608	8
EXPENDITURES									
Current									
Public safety	-	-	-	-	-	-	-	-	-
Highways, streets and bridges	-	-	-	-	-	-	-	-	-
Community and economic development	-	-	-	-	38,602	(38,602)	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	-	38,602	(38,602)	-	-	-
Excess of revenues over (under) expenditures	-	-	-	-	169,731	169,731	600	608	8
OTHER FINANCING SOURCES (USES)									
Proceeds from long-term debt	-	-	-	-	-	-	-	-	-
Transfers in	100,000	100,000	-	-	4,281	4,281	-	-	-
Transfers out	-	-	-	-	(174,012)	(174,012)	-	-	-
Total other financing sources (uses)	100,000	100,000	-	-	(169,731)	(169,731)	-	-	-
Net change in fund balances	\$ 100,000	100,000	\$ -	\$ -	-	\$ -	\$ 600	608	\$ 8
Fund balances at January 1, 2005		1,250,000			-			23,875	
Fund balances at December 31, 2005	\$ 1,350,000			\$ -	-		\$ 24,483		

City of Muskegon
BUDGETARY COMPARISON SCHEDULE - CONTINUED
Non-Major Special Revenue Funds
For the year ended December 31, 2005

	Tree Replacement			Variance -
	Final budget	Actual		positive (negative)
REVENUES				
Intergovernmental revenues				
Federal	\$ -	\$ -	\$ -	-
State	-	-	-	-
Local	-	-	-	-
Charges for services	4,100	4,100	-	-
Fines and forfeitures	-	-	-	-
Investment earnings	300	314	14	14
Other	-	-	-	-
Total revenues	4,400	4,414	14	14
EXPENDITURES				
Current				
Public safety	-	-	-	-
Highways, streets and bridges	-	-	-	-
Community and economic development	-	-	-	-
Culture and recreation	4,000	3,146	854	854
Total expenditures	4,000	3,146	854	854
Excess of revenues over (under) expenditures	400	1,268	868	868
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	\$ 400	1,268	\$ 868	868
Fund balances at January 1, 2005		12,293		
Fund balances at December 31, 2005		\$ 13,561		

City of Muskegon
COMBINING BALANCE SHEET
Other Capital Projects Funds
December 31, 2005

	Total other capital projects funds	Sidewalk Replacement	Public Improvement	Miehcon Remediation	EC Micro Loan	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation
ASSETS									
Cash and investments	\$ 2,763,682	\$ 735,584	\$ 1,756,510	\$ 192,950	\$ -	\$ 56,073	\$ -	\$ -	\$ 22,565
Receivables									
Accounts and loans (net of allowance for uncollectibles)	455,956	-	900	-	-	22,522	432,534	-	-
Special assessments	956,976	956,976	-	-	-	-	-	-	-
Due from other governmental units	587,579	-	-	-	-	-	345,144	222,056	20,379
Total assets	\$ 4,764,193	\$ 1,692,560	\$ 1,757,410	\$ 192,950	\$ -	\$ 78,595	\$ 777,678	\$ 222,056	\$ 42,944
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	\$ 15,107	\$ 419	\$ 1,064	\$ -	\$ -	\$ -	\$ 427	\$ 13,160	\$ 37
Accrued liabilities	7,715	-	-	-	-	-	6,225	-	1,490
Due to other funds	672,302	-	-	-	-	-	463,508	208,794	-
Deferred revenue	1,122,963	773,028	1,000	-	-	-	307,518	-	41,417
Total liabilities	1,818,087	773,447	2,064	-	-	-	777,678	221,954	42,944
Fund balances									
Reserved for capital projects	1,706,343	919,113	515,583	192,950	-	78,595	-	102	-
Unreserved									
Designated for approved projects	1,239,763	-	1,239,763	-	-	-	-	-	-
Total fund balances	2,946,106	919,113	1,755,346	192,950	-	78,595	-	102	-
Total liabilities and fund balances	\$ 4,764,193	\$ 1,692,560	\$ 1,757,410	\$ 192,950	\$ -	\$ 78,595	\$ 777,678	\$ 222,056	\$ 42,944

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Capital Projects Funds
For the year ended December 31, 2005

	Total other capital projects funds	Sidewalk Replacement	Public Improvement	Michcon Remediation	EC Micro Loan	EDC Revolving Loan	Community Development Block Grant	State Grants	HOME Rehabilitation
REVENUES									
Intergovernmental revenues									
Federal	\$ 2,250,929	\$ -	\$ -	\$ -	\$ 8,742	\$ -	\$ 1,290,399	\$ 91,784	\$ 860,004
State	287,658	-	-	-	-	-	-	287,658	-
Local	206,022	-	206,022	-	-	-	-	-	-
Charges for services	51,986	-	51,986	-	-	-	-	-	-
Investment earnings	121,054	76,140	26,876	4,824	7,189	3,548	2,477	-	-
Other	429,263	302,381	-	-	10,171	41,679	25,032	50,000	-
Total revenues	3,346,912	378,521	284,884	4,824	26,102	45,227	1,317,908	429,442	860,004
EXPENDITURES									
Debt service									
Principal	530,000	380,000	150,000	-	-	-	-	-	-
Interest and fees	96,183	91,865	4,318	-	-	-	-	-	-
Capital outlay	3,680,568	161,363	199,050	1,000	15,412	22,499	1,350,329	417,576	1,513,339
Total expenditures	4,306,751	633,228	353,368	1,000	15,412	22,499	1,350,329	417,576	1,513,339
Excess of revenues over (under) expenditures	(959,839)	(254,707)	(68,484)	3,824	10,690	22,728	(32,421)	11,866	(653,335)
OTHER FINANCING SOURCES (USES)									
Proceeds from sale of capital assets	827,141	-	141,385	-	-	-	32,421	-	653,335
Proceeds from long-term debt	605,824	-	605,824	-	-	-	-	-	-
Transfers in	312,971	149,517	150,000	-	-	13,454	-	-	-
Transfers out	(27,658)	-	-	-	(13,454)	(833)	-	(13,371)	-
Total other financing sources (uses)	1,718,278	149,517	897,209	-	(13,454)	12,621	32,421	(13,371)	653,335
Net change in fund balances	758,439	(105,190)	828,725	3,824	(2,764)	35,349	-	(1,505)	-
Fund balances at January 1, 2005	2,187,667	1,024,303	926,621	189,126	2,764	43,246	-	1,607	-
Fund balances at December 31, 2005	\$ 2,946,106	\$ 919,113	\$ 1,755,346	\$ 192,950	\$ -	\$ 78,595	\$ -	\$ 102	\$ -

DESCRIPTION OF INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods or services provided by one department to other departments of a governmental unit or to other governments on a cost-reimbursement basis.

A list and description of internal service funds maintained by the City follows:

Engineering Services – to account for salary, benefit and other costs related to the provision of internal engineering services for City projects; to account for charges to the user funds and projects to cover those expenses.

Equipment – to account for the purchase, operation, maintenance and depreciation of all City-owned vehicles and equipment; to account for charges to the user funds and departments to cover those expenses.

General Insurance – to account for the payment of claims and benefits, excess liability premiums and operating expenses; to account for charges to other funds and departments to cover the expenses.

Public Service Building – to account for the operation, maintenance and depreciation of the City's Public Service Building; to account for charges to the user funds and departments to cover these expenses.

City of Muskegon
COMBINING STATEMENT OF NET ASSETS
Internal Service Funds
December 31, 2005

ASSETS

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CURRENT ASSETS					
Cash and investments	\$ 2,560,712	\$ 145,183	\$ 1,493,873	\$ 745,060	\$ 176,596
Accounts receivable	487,338	9,076	8,876	469,386	-
Due from other governmental units	28,954	28,954	-	-	-
Inventories	18,785	-	18,785	-	-
Prepaid items	167,588	1,207	26,944	138,031	1,406
Total current assets	3,263,377	184,420	1,548,478	1,352,477	178,002
NONCURRENT ASSETS					
Capital assets					
Land	65,000	-	-	-	65,000
Land improvements	121,648	-	-	-	121,648
Buildings and improvements	1,562,717	-	-	-	1,562,717
Machinery and equipment	7,409,062	48,404	7,315,250	-	45,408
Less accumulated depreciation	(6,013,293)	(48,404)	(5,132,997)	-	(831,892)
Total noncurrent assets	3,145,134	-	2,182,253	-	962,881
Total assets	6,408,511	184,420	3,730,731	1,352,477	1,140,883
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	353,075	2,479	184,930	148,669	16,997
Accrued liabilities	31,321	10,221	13,519	1,865	5,716
Bonds and other obligations, due within one year	16,525	4,796	7,817	-	3,912
Total current liabilities	400,921	17,496	206,266	150,534	26,625
NONCURRENT LIABILITIES					
Bonds and other obligations, less amounts due within one year	80,678	23,415	38,166	-	19,097
Total liabilities	481,599	40,911	244,432	150,534	45,722
NET ASSETS					
Invested in capital assets	3,145,134	-	2,182,253	-	962,881
Unrestricted	2,781,778	143,509	1,304,046	1,201,943	132,280
Total net assets	\$ 5,926,912	\$ 143,509	\$ 3,486,299	\$ 1,201,943	\$ 1,095,161

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Internal Service Funds
For the year ended December 31, 2005

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
OPERATING REVENUES					
Charges for services	\$ 6,115,835	\$ 623,418	\$ 2,300,178	\$ 2,622,366	\$ 569,873
Other	205,380	56,948	27,056	121,356	20
Total operating revenues	6,321,215	680,366	2,327,234	2,743,722	569,893
OPERATING EXPENSES					
Administration	263,304	80,712	101,448	39,636	41,508
Insurance premiums and claims	3,592,689	-	-	3,592,689	-
Other operations	2,650,573	498,615	1,710,038	29,335	412,585
Depreciation	536,625	332	461,921	-	74,372
Total operating expenses	7,043,191	579,659	2,273,407	3,661,660	528,465
Operating income (loss)	(721,976)	100,707	53,827	(917,938)	41,428
NONOPERATING REVENUES					
Investment earnings	53,009	2,164	36,340	11,776	2,729
Gain on sale of capital assets	156,140	-	156,140	-	-
Total nonoperating revenues	209,149	2,164	192,480	11,776	2,729
Income (loss) before contributions and transfers	(512,827)	102,871	246,307	(906,162)	44,157
Capital contributions	76,890	-	41,827	35,063	-
Transfers in	1,175,004	-	-	1,175,004	-
Change in net assets	739,067	102,871	288,134	303,905	44,157
Total net assets at January 1, 2005	5,187,845	40,638	3,198,165	898,038	1,051,004
Total net assets at December 31, 2005	\$ 5,926,912	\$ 143,509	\$ 3,486,299	\$ 1,201,943	\$ 1,095,161

City of Muskegon
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended December 31, 2005

	Total internal service funds	Engineering Services	Equipment	General Insurance	Public Service Building
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 161,150	\$ 21,571	\$ 18,203	\$ 121,356	\$ 20
Receipts from interfund services provided	6,115,835	623,418	2,300,178	2,622,366	569,873
Payments to suppliers	(5,001,652)	(133,355)	(1,065,173)	(3,560,184)	(242,940)
Payments to employees	(1,003,909)	(354,667)	(437,974)	(30,109)	(181,159)
Payments for interfund services used	(653,363)	(88,358)	(245,746)	(284,809)	(34,450)
Net cash provided by (used for) operating activities	(381,939)	68,609	569,488	(1,131,380)	111,344
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	1,175,004	-	-	1,175,004	-
Interfund borrowing	909,725	-	909,725	-	-
Net cash provided by noncapital financing activities	2,084,729	-	909,725	1,175,004	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions	35,063	-	-	35,063	-
Purchases of capital assets	(854,852)	-	(836,404)	-	(18,448)
Proceeds from sale of capital assets	227,906	-	227,906	-	-
Net cash provided by (used for) capital and related financing activities	(591,883)	-	(608,498)	35,063	(18,448)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	53,009	2,164	36,340	11,776	2,729
Net increase in cash and investments	1,163,916	70,773	907,055	90,463	95,625
Cash and investments at January 1, 2005	1,396,796	74,410	586,818	654,597	80,971
Cash and investments at December 31, 2005	<u>\$ 2,560,712</u>	<u>\$ 145,183</u>	<u>\$ 1,493,873</u>	<u>\$ 745,060</u>	<u>\$ 176,596</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	\$ (721,976)	\$ 100,707	\$ 53,827	\$ (917,938)	\$ 41,428
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Depreciation expense	536,625	332	461,921	-	74,372
Change in assets and liabilities	(206,309)	(35,377)	(8,853)	(162,079)	-
Receivables, net	(515)	-	(515)	-	-
Inventories	3,592	(54)	(1,063)	4,681	28
Prepaid items	5,351	1,909	63,997	(57,073)	(3,482)
Accounts payable	1,293	1,092	174	1,029	(1,002)
Accrued liabilities					
Net cash provided by (used for) operating activities	<u>\$ (381,939)</u>	<u>\$ 68,609</u>	<u>\$ 569,488</u>	<u>\$ (1,131,380)</u>	<u>\$ 111,344</u>
Noncash financing activities					
Contribution of capital assets from governmental activities	\$ 41,827	\$ -	\$ 41,827	\$ -	\$ -

DESCRIPTION OF FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments or other funds.

A list and description of the fiduciary funds maintained by the City follows:

PENSION TRUST FUNDS are used to account for public employee retirement systems.

General Employees Retirement System – to account for the funding of retirement for the general employees of the City by all funds and departments, for establishing and maintaining required reserves and the payment of retirement benefits to participants.

Policemen and Firemen Retirement System – to account for the funding of public safety employees' retirement by the general fund, for establishing and maintaining required reserves and the payment of retirement benefits to participants.

Retiree Healthcare – to account for the funding of retirement healthcare benefits for employees and retirees of the city in accordance with the provisions of P.A. 149 of 1999.

AGENCY FUNDS are used to account for assets held as an agent for another organization or individual.

Collector – to account for the collections and disbursement of funds to other entities and individuals and to account for payroll withholdings and their remittance to the appropriate governmental agencies.

Current Tax – to account for levy, collection and payment of taxes levied for the general and other funds of the City, county and public school districts.

Rehab Loan Escrow – to account for deposits made by housing rehabilitation program participants and their expenditures for the intended purposes.

City of Muskegon
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
Pension Trust Funds
December 31, 2005

		General Employees Retirement System		Policemen and Firemen Retirement System			
	Total pension trust funds	Pension	Healthcare	Total	Pension	Healthcare	Total
ASSETS							
Cash and investments	\$ 83,332,566	\$ 27,280,816	\$ 3,288,302	\$ 30,569,118	\$ 45,517,969	\$ 1,132,174	\$ 46,650,143
							Retiree Healthcare
							\$ 6,113,305
LIABILITIES							
Accounts payable	1,119	553	-	553	566	-	566
NET ASSETS							
Held in trust for benefits	\$ 83,331,447	\$ 27,280,263	\$ 3,288,302	\$ 30,568,565	\$ 45,517,403	\$ 1,132,174	\$ 46,649,577
							\$ 6,113,305

City of Muskegon
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Pension Trust Funds
For the year ended December 31, 2005

	Total pension trust funds	General Employees Retirement System		Policemen and Firemen Retirement System		Retiree Healthcare
		Pension	Healthcare	Pension	Healthcare	
ADDITIONS						
Contributions						
Employer	\$ 2,636,422	\$ 513,998	\$ -	\$ 1,224,402	\$ -	\$ 898,022
Plan members	726,934	316,622	-	410,312	-	-
Total contributions	3,363,356	830,620	-	1,634,714	-	898,022
Investment earnings						
Interest and dividends	40,181	20,497	-	18,072	-	1,612
Net increase (decrease) in fair value of investments	5,272,344	2,178,349	(45,668)	2,792,220	63,894	283,549
Total net investment earnings	5,312,525	2,198,846	(45,668)	2,810,292	63,894	285,161
Total additions	8,675,881	3,029,466	(45,668)	4,445,006	63,894	1,183,183
DEDUCTIONS						
Benefits	4,564,748	1,483,545	-	3,081,203	-	-
Refunds of contributions	1,880,936	1,608,481	-	272,455	-	-
Plan assets transferred to						
Municipal Employees Retirement System	5,654,433	4,790,325	-	864,108	-	-
Administrative expenses	224,121	101,536	-	119,646	-	2,939
Transfers out	1,146,958	-	405,957	-	741,001	-
Total deductions	13,471,196	7,983,887	405,957	4,337,412	741,001	2,939
Intrafund transfers in (out)	-	(191,003)	191,003	(97,011)	97,011	-
Change in net assets	(4,795,315)	(5,145,424)	(260,622)	10,583	(580,096)	1,180,244
Net assets at January 1, 2005	88,126,762	32,425,687	3,548,924	45,506,820	1,712,270	4,933,061
Net assets at December 31, 2005	\$ 83,331,447	\$ 27,280,263	\$ 3,288,302	\$ 45,517,403	\$ 1,132,174	\$ 6,113,305

City of Muskegon
COMBINING STATEMENT OF ASSETS AND LIABILITIES
Agency Funds
December 31, 2005

	Total agency funds	Collector	Current tax	Rehab Loan Escrow
ASSETS				
Cash and investments	\$ 4,364,827	\$ 1,377,608	\$ 2,987,219	\$ -
Receivables				
Accounts	900	900	-	-
Property taxes	18,865,604	-	18,865,604	-
Total assets	<u>\$ 23,231,331</u>	<u>\$ 1,378,508</u>	<u>\$ 21,852,823</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	\$ 1,046	\$ 1,046	\$ -	\$ -
Due to other governmental units	22,161,819	314,780	21,847,039	-
Deposits held for others	<u>1,068,466</u>	<u>1,062,682</u>	<u>5,784</u>	<u>-</u>
Total liabilities	<u>\$ 23,231,331</u>	<u>\$ 1,378,508</u>	<u>\$ 21,852,823</u>	<u>\$ -</u>

City of Muskogee
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Agency Funds
For the year ended December 31, 2005

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
COLLECTOR FUND				
ASSETS				
Cash and investments	\$ 787,182	\$ 14,321,130	\$ 13,730,704	\$ 1,377,608
Accounts receivable	900	228,981	228,981	900
Total assets	\$ 788,082	\$ 14,550,111	\$ 13,959,685	\$ 1,378,508
LIABILITIES				
Accounts payable	\$ 11,222	\$ 6,269,329	\$ 6,279,505	\$ 1,046
Due to other governmental units	434	3,557,486	3,243,140	314,780
Other liabilities	776,426	3,755,807	3,469,551	1,062,682
Total liabilities	\$ 788,082	\$ 13,582,622	\$ 12,992,196	\$ 1,378,508
CURRENT TAX FUND				
ASSETS				
Cash and investments	\$ 3,682,220	\$ 29,942,987	\$ 30,637,988	\$ 2,987,219
Property taxes receivable	18,997,331	21,863,458	21,995,185	18,865,604
Total assets	\$ 22,679,551	\$ 51,806,445	\$ 52,633,173	\$ 21,852,823
LIABILITIES				
Due to other governmental units	\$ 22,672,047	\$ 21,863,458	\$ 22,688,466	\$ 21,847,039
Due to other funds	-	7,162,403	7,162,403	-
Due to component units	-	709,847	709,847	-
Deposits held for others	7,504	75,552	77,272	5,784
Total liabilities	\$ 22,679,551	\$ 29,811,260	\$ 30,637,988	\$ 21,852,823
REHAB LOAN ESCROW				
ASSETS				
Cash and investments	\$ -	\$ 9,796	\$ 9,796	\$ -
LIABILITIES				
Accounts payable	\$ -	\$ 9,796	\$ 9,796	\$ -
ALL AGENCY FUNDS				
ASSETS				
Cash and investments	\$ 4,469,402	\$ 44,273,913	\$ 44,378,488	\$ 4,364,827
Receivables	900	228,981	228,981	900
Accounts	18,997,331	21,863,458	21,995,185	18,865,604
Property taxes	\$ 23,467,633	\$ 66,366,352	\$ 66,602,654	\$ 23,231,331
Total assets				
LIABILITIES				
Accounts payable	\$ 11,222	\$ 6,279,125	\$ 6,289,301	\$ 1,046
Due to other governmental units	22,672,481	25,420,944	25,931,606	22,161,819
Due to other funds	-	7,162,403	7,162,403	-
Due to component units	-	709,847	709,847	-
Deposits held for others	783,930	3,831,359	3,546,823	1,068,466
Total liabilities	\$ 23,467,633	\$ 43,403,678	\$ 43,639,980	\$ 23,231,331

DESCRIPTION OF DISCRETELY PRESENTED COMPONENT UNITS

A list and description of the discretely presented component units maintained by the City are as follows:

Downtown Development Authority – to account for the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the downtown.

Local Development Finance Authority – to account for the collection of tax increment revenues and the construction of public facilities. Three separate local development finance authority districts have been created:

Local Development Finance Authority I – to promote and facilitate economic growth in the Port City Industrial Park.

Local Development Finance Authority II – to promote and facilitate economic growth in the Medendorp Industrial Park.

Local Development Finance Authority III – to promote and facilitate economic growth in the SmartZone Hi-Tech Park.

Tax Increment Finance Authority – to account for the collection of tax increment revenues, the issuance and repayment of debt to promote and facilitate economic growth in a sub section of the downtown.

City of Muskegon
COMBINING BALANCE SHEET
Discretely Presented Component Units
December 31, 2005

	Total discretely presented component units	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority
ASSETS						
Cash and investments	\$ 349,950	\$ 312	\$ 22,321	\$ 282,397	\$ 41,565	\$ 3,355
Property taxes receivable	410,215	-	-	15,493	340,951	53,771
Due from other governmental units	8,507	-	-	-	8,507	-
Total assets	<u>\$ 768,672</u>	<u>\$ 312</u>	<u>\$ 22,321</u>	<u>\$ 297,890</u>	<u>\$ 391,023</u>	<u>\$ 57,126</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Deferred revenue	\$ 410,215	\$ -	\$ -	\$ 15,493	\$ 340,951	\$ 53,771
Fund balances						
Unreserved	<u>358,457</u>	<u>312</u>	<u>22,321</u>	<u>282,397</u>	<u>50,072</u>	<u>3,355</u>
Total liabilities and fund balances	<u>\$ 768,672</u>	<u>\$ 312</u>	<u>\$ 22,321</u>	<u>\$ 297,890</u>	<u>\$ 391,023</u>	<u>\$ 57,126</u>

City of Muskegon
RECONCILIATION OF THE DISCRETELY PRESENTED COMPONENT UNITS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
December 31, 2005

Total fund balance—discretely presented component unit funds	\$ 358,457
Amounts reported for discretely presented component unit activities in the Statement of Net Assets are different because:	
Capital assets used in discretely presented component unit activities are not financial resources and therefore are not reported as assets in the discretely presented component unit funds.	
Capital assets	\$ 4,198,258
Accumulated depreciation	<u>(359,684)</u>
	3,838,574
Bond issuance costs are not capitalized and amortized in the discretely presented component unit funds.	
Bond issuance costs	141,966
Accumulated amortization	<u>(18,517)</u>
	123,449
Accrued interest in discretely presented component unit activities is not reported in the discretely presented component unit funds.	(46,700)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the discretely presented component unit funds.	<u>(9,022,561)</u>
Net assets of discretely presented component units in the Statement of Net Assets	<u><u>\$ (4,748,781)</u></u>

City of Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Discretely Presented Component Units
For the year ended December 31, 2005

	Total discretely presented component units	Local Development Finance Authority I	Local Development Finance Authority II	Local Development Finance Authority III	Downtown Development Authority	Tax Increment Finance Authority
REVENUES						
Property taxes	\$ 797,723	\$ -	\$ -	\$ 11,620	\$ 726,397	\$ 59,706
Investment earnings	26,122	11	526	11,115	13,962	508
Total revenues	823,845	11	526	22,735	740,359	60,214
EXPENDITURES						
Current						
Community and economic development	476,666	-	-	-	416,666	60,000
Debt service						
Principal	185,000	-	-	-	185,000	-
Interest and fees	358,941	-	-	205,498	153,443	-
Total expenditures	1,020,607	-	-	205,498	755,109	60,000
Net change in fund balances	(196,762)	11	526	(182,763)	(14,750)	214
Fund balances at January 1, 2005, as restated	555,219	301	21,795	465,160	64,822	3,141
Fund balances at December 31, 2005	\$ 358,457	\$ 312	\$ 22,321	\$ 282,397	\$ 50,072	\$ 3,355

City of Muskegon

**RECONCILIATION OF THE DISCRETELY PRESENTED COMPONENT UNITS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended December 31, 2005

Net change in fund balances—total discretely presented component unit funds:	\$ (196,762)
Amounts reported for discretely presented component unit activities in the Statement of Activities are different because:	
Discretely presented component unit funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.	
Depreciation and amortization expense	(178,821)
Repayment of principal on long-term debt is an expenditure in the discretely presented component unit funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	184,421
Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the discretely presented component unit funds until paid.	<u>1,700</u>
Change in net assets of discretely presented component unit activities	<u>\$ (189,462)</u>

SCHEDULE OF INDEBTEDNESS

SCHEDULE OF INDEBTEDNESS

December 31, 2005

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2004	2005	
Business-Type Activities Bonds and Loans Payable:							
Water supply system bonds	10/1/1993	\$ 5,465,000	0.00%	05/01/06	\$ -	\$ -	\$ 40,500
(\$13,056 unamortized discount)			0.00%	05/01/07	-	-	40,500
			0.00%	05/01/08	-	-	40,500
			0.00%	05/01/09	-	-	40,500
			0.00%	05/01/10	-	-	40,500
			0.00%	05/01/11	-	-	40,500
			4.50%	05/01/12	450,000	450,000	30,375
			4.50%	05/01/13	450,000	450,000	10,121
					900,000	900,000	283,496
Water supply system bonds	3/2/1999	\$ 9,575,000	3.95%	05/01/05	435,000	-	-
(\$61,129 unamortized discount)			4.05%	05/01/06	455,000	455,000	326,899
			4.05%	05/01/07	470,000	470,000	308,168
			4.05%	05/01/08	490,000	490,000	288,728
			4.10%	05/01/09	510,000	510,000	268,350
			4.20%	05/01/10	535,000	535,000	246,660
			4.30%	05/01/11	555,000	555,000	223,493
			4.35%	05/01/12	130,000	130,000	208,733
			4.40%	05/01/13	155,000	155,000	202,495
			4.50%	05/01/14	635,000	635,000	184,798
			4.55%	05/01/15	665,000	665,000	155,381
			4.60%	05/01/16	695,000	695,000	124,268
			4.65%	05/01/17	730,000	730,000	91,310
			4.75%	05/01/18	765,000	765,000	56,169
			4.75%	05/01/19	800,000	800,000	19,000
					8,025,000	7,590,000	2,704,452
Drinking Water State Revolving Fund (DWSRF)	3/2/2004	\$ 13,900,000	2.13%	10/01/06	565,000	565,000	295,375
			2.13%	10/01/07	575,000	575,000	283,369
			2.13%	10/01/08	590,000	590,000	271,150
			2.13%	10/01/09	600,000	600,000	258,613
			2.13%	10/01/10	615,000	615,000	245,863
			2.13%	10/01/11	630,000	630,000	232,794
			2.13%	10/01/12	640,000	640,000	219,406
			2.13%	10/01/13	655,000	655,000	205,806
			2.13%	10/01/14	670,000	670,000	191,888
			2.13%	10/01/15	685,000	685,000	177,650
			2.13%	10/01/16	695,000	695,000	163,094
			2.13%	10/01/17	710,000	710,000	148,325
			2.13%	10/01/18	725,000	725,000	133,238
			2.13%	10/01/19	128,766	745,000	117,831
			2.13%	10/01/20	-	760,000	102,000
			2.13%	10/01/21	-	775,000	85,850
			2.13%	10/01/22	-	790,000	69,382
			2.13%	10/01/23	-	810,000	52,594
			2.13%	10/01/24	-	825,000	35,381
			2.13%	10/01/25	-	840,000	17,850
					8,483,766	13,900,000	3,307,459
Contractual obligation for	11/6/2002	\$ 6,990,000	2.25%	07/01/05	116,862	-	-
County wastewater debt retirement - refunding bonds			5.00%	07/01/06	1,244,580	1,058,767	157,324
			5.00%	07/01/07	1,232,894	1,048,826	104,386
			5.00%	07/01/08	1,221,208	1,038,885	51,944
					3,815,544	3,146,478	313,654
Contractual obligation for	10/1/2006	\$ 6,497,750	1.63%	10/01/08	-	459,539	-
County wastewater debt retirement					-	459,539	-
Contractual obligation for	5/1/1996	\$ 8,034,263	5.70%	07/01/05	964,112	-	-
County wastewater debt retirement					964,112	-	-
TOTAL BUSINESS-TYPE ACTIVITIES BONDS AND LOANS PAYABLE					\$ 22,188,422	\$ 25,996,017	\$ 6,609,061

SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2005

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2004	2005	
Governmental Activities Bonds and Loans Payable:							
Installment purchase contract of 2005 (firetrucks)	7/26/2005	\$ 605,824	3.83%	04/01/06	\$ -	\$ 49,785	\$ 22,250
			3.83%	04/01/07	-	51,921	20,302
			3.83%	04/01/08	-	54,148	18,271
			3.83%	04/01/09	-	56,471	16,153
			3.83%	04/01/10	-	58,894	13,944
			3.83%	04/01/11	-	61,420	11,639
			3.83%	04/01/12	-	64,055	9,236
			3.83%	04/01/13	-	66,803	6,731
			3.83%	04/01/14	-	69,669	4,117
			3.83%	04/01/15	-	72,658	1,391
					-		605,824
Special assessment improvement bonds of 1996 (sidewalks)	1/1/1996	\$ 1,155,000	4.40%	12/01/05	25,000	-	-
					25,000	-	-
Special assessment improvement bonds of 1998 (sidewalks)	10/1/1998	\$ 1,495,000	3.95%	04/01/05	165,000	-	-
			4.00%	04/01/06	165,000	165,000	14,700
			4.00%	04/01/07	130,000	130,000	8,800
			4.00%	04/01/08	95,000	95,000	4,300
			4.00%	04/01/09	60,000	60,000	1,200
					615,000	450,000	29,000
Special assessment improvement bonds of 2000 (sidewalks)	12/1/2000	\$ 825,000	4.60%	04/01/05	85,000	-	-
			4.65%	04/01/06	85,000	85,000	17,951
			4.70%	04/01/07	90,000	90,000	13,860
			4.80%	04/01/08	85,000	85,000	9,705
			4.90%	04/01/09	85,000	85,000	5,583
			5.00%	04/01/10	70,000	70,000	1,746
					500,000	415,000	48,845
Capital improvement bonds of 2003 (sidewalks)	3/1/2003	\$ 1,575,000	2.00%	06/01/05	105,000	-	-
			2.00%	06/01/06	105,000	105,000	45,524
			2.38%	06/01/07	110,000	110,000	43,168
			2.88%	06/01/08	110,000	110,000	40,280
			3.13%	06/01/09	115,000	115,000	36,902
			3.50%	06/01/10	120,000	120,000	33,005
			3.50%	06/01/11	120,000	120,000	28,805
			3.70%	06/01/12	125,000	125,000	24,393
			3.80%	06/01/13	130,000	130,000	19,610
			3.90%	06/01/14	135,000	135,000	14,508
			4.00%	06/01/15	145,000	145,000	8,975
			4.05%	06/01/16	150,000	150,000	3,038
					1,470,000	1,365,000	298,206
State of Michigan urban land assembly loan	12/15/1999	\$ 1,276,900	0.00%	10/31/05	150,000	-	-
			0.00%	10/31/06	150,000	150,000	-
			0.00%	10/31/07	200,000	200,000	-
			0.00%	10/31/08	200,000	200,000	-
			0.00%	10/31/09	276,900	276,900	-
					976,900	826,900	-
State of Michigan urban land assembly loan	8/1/2005	\$ 700,000	0.00%	09/01/06	-	20,000	-
			0.00%	09/01/07	-	20,000	-
			0.00%	09/01/08	-	20,000	-
			0.00%	09/01/09	-	20,000	-
			0.00%	09/01/10	-	20,000	-
			0.00%	09/01/11	-	120,000	-
			0.00%	09/01/12	-	120,000	-
			0.00%	09/01/13	-	116,076	-
					-	456,076	-
Michigan transportation fund refunding bonds (\$2,596 unamortized premium)	10/1/2002	\$ 2,245,000	2.25%	06/01/05	370,000	-	-
			2.50%	06/01/06	385,000	385,000	28,500
			2.88%	06/01/07	400,000	400,000	17,937
			3.13%	06/01/08	390,000	390,000	6,093
					1,545,000	1,175,000	52,530
Michigan transportation fund bonds	11/1/1997	\$ 1,950,000	4.15%	12/01/05	215,000	-	-
			4.20%	12/01/06	230,000	230,000	19,860
			4.25%	12/01/07	240,000	240,000	10,200
					685,000	470,000	30,060
TOTAL GOVERNMENTAL ACTIVITIES BONDS AND LOANS PAYABLE					\$ 5,816,900	\$ 5,763,800	\$ 582,675
TOTAL PRIMARY GOVERNMENT BONDS AND LOANS PAYABLE					\$ 28,005,322	\$ 31,759,817	\$ 7,191,736

SCHEDULE OF INDEBTEDNESS - CONTINUED

December 31, 2005

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity			Annual Interest Payable
					2004	2005	
Discretely Presented Component Unit Bonds and Loans Payable:							
Downtown Development Authority promissory note to Muskegon County	8/10/1989	\$ 1,000,000	0.00%	08/30/19	\$ 1,000,000	\$ 1,000,000	\$ -
					1,000,000	1,000,000	-
Downtown Development Authority refunding bonds	9/1/2001	\$ 4,005,000	4.00%	06/01/05	185,000	-	-
			4.00%	06/01/06	200,000	200,000	145,492
			4.00%	06/01/07	200,000	200,000	137,492
			4.00%	06/01/08	210,000	210,000	129,292
			4.20%	06/01/09	220,000	220,000	120,472
			4.25%	06/01/10	230,000	230,000	110,964
			4.35%	06/01/11	240,000	240,000	100,857
			4.45%	06/01/12	245,000	245,000	90,187
			4.55%	06/01/13	260,000	260,000	78,821
			4.65%	06/01/14	270,000	270,000	66,628
			4.75%	06/01/15	280,000	280,000	53,700
			4.85%	06/01/16	300,000	300,000	39,775
			5.00%	06/01/17	315,000	315,000	24,625
			5.00%	06/01/18	335,000	335,000	8,375
					3,490,000	3,305,000	1,106,680
Local Development Finance Authority Smartzone Bonds (\$7,439 unamortized discount)	11/1/2002	\$ 4,725,000	0.00%	11/01/05	-	-	-
			0.00%	11/01/06	-	-	205,147
			3.25%	11/01/07	80,000	80,000	205,147
			3.50%	11/01/08	80,000	80,000	202,547
			3.63%	11/01/09	80,000	80,000	199,747
			3.88%	11/01/10	80,000	80,000	196,847
			3.88%	11/01/11	80,000	80,000	193,747
			4.00%	11/01/12	180,000	180,000	190,647
			3.90%	11/01/13	240,000	240,000	183,447
			4.05%	11/01/14	305,000	305,000	174,087
			4.05%	11/01/15	325,000	325,000	161,736
			4.15%	11/01/16	340,000	340,000	148,572
			4.25%	11/01/17	355,000	355,000	134,462
			4.35%	11/01/18	375,000	375,000	119,376
			4.45%	11/01/19	395,000	395,000	103,062
			4.60%	11/01/20	400,000	400,000	85,486
			4.60%	11/01/21	255,000	255,000	67,086
			4.60%	11/01/22	265,000	265,000	55,356
			4.85%	11/01/23	280,000	280,000	43,166
			4.85%	11/01/24	295,000	295,000	29,586
			4.85%	11/01/25	315,000	315,000	15,278
					4,725,000	4,725,000	2,714,529
TOTAL DISCRETELY PRESENTED COMPONENT UNIT BONDS AND LOANS PAYABLE					\$ 9,215,000	\$ 9,030,000	\$ 3,821,209
TOTAL REPORTING ENTITY BONDS AND LOANS PAYABLE					\$ 37,220,322	\$ 40,789,817	\$ 11,012,945

STATISTICAL SECTION
(UNAUDITED)

City of Muskegon

GENERAL FUND REVENUES AND OTHER FINANCING SOURCES BY SOURCE

Last Ten Fiscal Years

Year	Local Taxes (a)	% of Total	Licenses & Permits	% of Total	Intergovernmental	% of Total	Charges for Service	% of Total	Interest and Rent	% of Total	Fines and Fees	% of Total	Transfers In	% of Total	Other	% of Total	Total (b)	% Change
1996	\$ 9,218,272	52.2%	\$ 829,441	4.7%	\$ 5,171,357	29.3%	\$ 1,004,833	5.7%	\$ 453,612	2.6%	\$ 266,374	1.5%	\$ 205,229	1.2%	\$ 517,096	2.9%	\$ 17,666,214	-
1997	11,323,885	55.6%	845,519	4.2%	5,650,079	27.7%	1,432,452	7.0%	512,475	2.5%	246,943	1.2%	149,789	0.7%	200,946	1.0%	20,362,088	15.3%
1998	11,855,295	54.8%	850,890	3.9%	5,507,100	25.4%	1,620,924	7.5%	602,811	2.8%	434,478	2.0%	360,349	1.7%	412,008	1.9%	21,643,855	6.3%
1999	11,961,023	55.8%	1,015,777	4.7%	5,286,569	24.6%	1,911,915	8.9%	465,749	2.2%	277,369	1.3%	177,408	0.8%	355,871	1.7%	21,451,681	-0.9%
2000	12,831,435	54.2%	1,129,001	4.8%	6,008,823	25.4%	2,093,312	8.8%	599,409	2.5%	338,677	1.4%	207,636	0.9%	477,223	2.0%	23,685,516	10.4%
2001	12,878,483	54.9%	1,014,598	4.3%	6,184,017	26.4%	1,971,996	8.4%	490,863	2.1%	350,557	1.5%	178,457	0.8%	377,640	1.6%	23,446,611	-1.0%
2002	13,465,040	57.0%	1,071,236	4.5%	5,643,611	23.9%	2,091,356	8.9%	332,560	1.4%	393,314	1.7%	180,985	0.8%	439,062	1.9%	23,617,164	0.7%
2003	13,246,744	56.8%	1,108,780	4.8%	5,173,722	22.2%	2,240,866	9.6%	189,485	0.8%	471,682	2.0%	566,282	2.4%	331,195	1.4%	23,328,756	-1.2%
2004	13,767,040	58.8%	1,139,014	4.9%	4,911,633	21.0%	2,138,678	9.1%	160,766	0.7%	622,165	2.7%	301,209	1.3%	361,288	1.5%	23,401,793	-0.9%
2005	14,521,769	61.2%	1,047,981	4.4%	4,766,729	20.1%	2,069,861	8.7%	333,122	1.4%	646,749	2.7%	38,367	0.2%	308,063	1.3%	23,732,641	1.7%

(a) Includes Industrial and Commercial Facilities Tax revenue.

(b) When comparing "Total Revenues" with "Total Expenditures" as presented in the exhibit entitled "General Fund Expenditures and Other Uses by Function" the difference reflects the use of fund balance (when expenditures are greater than revenues) or addition to fund balance (when revenues are greater than expenditures).

SOURCE: City of Muskegon Finance Department

City of Muskegon

GENERAL FUND EXPENDITURES AND OTHER USES BY FUNCTION

Last Ten Fiscal Years

Year	Legislative	% of Total	General Government	% of Total	Public Safety	% of Total	Public Works	% of Total	Culture and Recreation	% of Total	Community & Economic Development	% of Total	Other (a)	% of Total	Total (b)	% Change
1996	\$ 80,482	0.4%	\$ 2,343,820	13.0%	\$ 8,347,026	46.3%	\$ 720,714	4.0%	\$ 1,744,754	9.7%	\$ 1,289,161	7.2%	\$ 3,492,202	19.4%	\$ 18,018,159	-
1997	109,432	0.5%	2,854,773	14.0%	8,709,644	42.8%	2,587,188	12.7%	2,098,575	10.3%	1,549,156	7.6%	2,449,552	12.0%	20,358,320	13.0%
1998	100,166	0.5%	2,858,746	13.2%	9,463,878	43.7%	2,517,806	11.6%	2,352,626	10.9%	1,668,148	7.7%	2,673,097	12.4%	21,634,467	6.3%
1999	97,495	0.4%	2,906,536	13.2%	10,314,125	46.9%	2,738,257	12.4%	2,329,065	10.6%	1,338,643	6.1%	2,287,760	10.4%	22,011,881	1.7%
2000	108,223	0.5%	3,044,816	13.7%	11,096,769	49.9%	2,668,788	12.0%	2,345,712	10.6%	931,336	4.2%	2,037,013	9.2%	22,232,657	1.0%
2001	113,296	0.5%	3,187,741	13.7%	11,130,536	47.9%	2,678,089	11.5%	2,637,586	11.4%	948,756	4.1%	2,539,974	10.9%	23,235,978	4.5%
2002	131,889	0.6%	3,467,461	14.5%	11,497,673	48.0%	2,680,695	11.2%	2,610,935	10.9%	971,335	4.1%	2,611,548	10.9%	23,971,536	3.2%
2003	103,449	0.4%	3,418,263	14.4%	11,437,516	48.2%	2,731,241	11.5%	2,624,275	11.1%	987,097	4.2%	2,403,493	10.1%	23,705,334	-1.1%
2004	83,235	0.4%	3,320,050	14.2%	12,272,681	52.5%	2,543,512	10.9%	2,259,699	9.7%	797,072	3.4%	2,111,771	9.0%	23,388,020	-1.3%
2005	77,980	0.3%	3,463,039	14.6%	12,587,931	53.2%	2,661,073	11.2%	2,197,276	9.3%	745,794	3.2%	1,925,134	8.1%	23,658,227	1.2%

(a) Includes "Transfers to Other Funds", insurance costs, debt service, major capital improvements, and miscellaneous expenditures.

(b) When comparing "Total Expenditures" with "Total Revenues" as presented in the exhibit entitled "General Fund Revenues and Other Financing Sources by Source" the difference reflects the use of fund balance (when expenditures are greater than revenues) or addition to fund balance (when revenues are greater than expenditures).

SOURCE: City of Muskegon Finance Department

City of Muskegon

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (a)

Last Ten Fiscal Years

Fiscal Year	Real Property			Personal Property			Total Property		
	Assessed Value	Estimated Actual Value		Assessed Value	Estimated Actual Value		Assessed Value	Estimated Actual Value	Assessed to Estimated Value
1996	\$ 420,246,500	\$ 840,493,000	\$	154,302,600	\$ 308,605,200	\$	574,549,100	\$ 1,149,098,200	50.0%
1997	438,157,200	876,314,400		165,327,700	330,655,400		603,484,900	1,206,969,800	50.0%
1998	461,049,700	922,099,400		153,932,700	307,865,400		614,982,400	1,229,964,800	50.0%
1999	496,781,800	993,563,600		179,928,300	359,856,600		676,710,100	1,353,420,200	50.0%
2000	543,897,900	1,087,795,800		180,164,900	360,329,800		724,062,800	1,448,125,600	50.0%
2001	601,420,300	1,202,840,600		211,503,600	423,007,200		812,923,900	1,625,847,800	50.0%
2002	638,624,250	1,277,248,500		187,393,600	374,787,200		826,017,850	1,652,035,700	50.0%
2003	661,692,712	1,323,385,424		177,348,400	354,696,800		839,041,112	1,678,082,224	50.0%
2004	661,233,389	1,322,466,778		168,106,228	336,212,456		829,339,617	1,658,679,234	50.0%
2005	673,785,278	1,347,570,556		158,140,600	316,281,200		831,925,878	1,663,851,756	50.0%

(a) Includes property assessed under the Industrial Facilities Tax (IFT), Commercial Facilities Tax (CFT), Neighborhood Enterprise Zone (NEZ), Commercial Enterprise Zone (CEZ) and Renaissance Zone (REZ) exemption programs.

SOURCE: City of Muskegon Assessor's Office/Muskegon County Equalization Department

City of Muskegon

TEN LARGEST PROPERTY ASSESSMENTS

AGGREGATE TAXABLE VALUES BY OWNER

December 2005

Name of Taxpayer	Taxable Value Real Property	Taxable Value Personal Property	Taxable Value Act 198 & Special Acts	Total Taxable Value	Percent
Consumers Energy Company	\$ 48,412,388	\$ 10,638,500	\$ 11,669,111	\$ 70,719,999	9.68%
Sappi	7,218,110	18,518,100	24,897,100	50,633,310	6.93%
DTE Energy	1,431,964	7,250,400	-	8,682,364	1.19%
Johnson Technology	874,189	5,276,500	1,369,600	7,520,289	1.03%
ADAC Plastics	1,144,186	2,395,000	3,900,900	7,440,086	1.02%
Brunswick	3,115,658	4,224,400	-	7,340,058	1.00%
Bekaert Steel Wire Corporation	2,316,694	2,249,300	1,384,600	5,950,594	0.81%
Lorin Industries	531,622	4,759,600	547,400	5,838,622	0.80%
ESCO Company	1,278,449	4,151,900	403,400	5,833,749	0.80%
Holland Neway International	2,294,461	1,043,200	2,284,000	5,621,661	0.77%
Total--10 Largest				175,580,732	24.03%
Total--All Other				555,113,672	75.97%
				<u>\$ 730,694,404</u>	<u>100.00%</u>

SOURCE: Muskegon County Equalization Department

City of Muskegon

TEN LARGEST TAXPAYERS

Last Five Fiscal Years

Name of Taxpayer	2001	2002	2003 (a)	2004 (a)	2005 (a)
Consumers Energy Company	\$ 4,010,151	\$ 3,617,363	\$ 3,221,146	\$ 3,351,241	\$ 3,304,432
Sappi (S.D. Warren Co.)	2,701,211	2,670,623	2,204,318	2,111,973	1,898,812
DTE Energy (formerly Michcon)	535,702	415,712	379,603	467,925	431,057
Brunswick	415,892	429,291	372,587	295,305	364,770
UNC Johnson Technology	314,506	346,895	375,696	366,216	338,117
ESCO Company	-	-	281,294	278,538	278,589
Terrace Partners LLC	345,368	300,515	272,893	284,680	264,531
Bekaert Steel Wire Corporation	-	-	-	270,540	261,052
Lorin Industries	306,336	345,929	336,627	269,096	252,733
Honeywell, Inc.	-	-	-	-	237,338
Sherman Shopping Center LLC	-	-	-	246,859	-
ADAC Plastics	-	302,927	322,449	-	-
Ango American Clays Corporation	833,036	-	-	-	-
Muskegon Properties Company	334,728	-	-	-	-
Holland Newway International	297,741	281,153	-	-	-
Cole's Quality Foods	-	259,390	-	-	-
	<u>\$ 10,094,671</u>	<u>\$ 8,969,798</u>	<u>\$ 7,766,613</u>	<u>\$ 7,942,373</u>	<u>\$ 7,631,431</u>

(a) Starting in 2003, the 6.0-mill State Education Tax (SET) is collected in the summer by Muskegon County. Figures shown here are for winter taxes only as collected by the City of Muskegon.

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon

TAX RATES PER \$1,000 TAXABLE VALUE FOR CITY AND OVERLAPPING UNITS

Last Ten Fiscal Years

Year	City General	City Special	Debt Service	Total City	State Education Tax	School District	Library District (a)	County Schools (b)	County General (c)	Grand Total
1996	\$ 7.0000	3.0988	\$ -	\$ 10.0988	\$ 6.0000	26.0000	-	5.0885	\$ 6.7136	\$ 53.9009
1997	7.0000	3.0937	-	10.0937	6.0000	26.0000	-	5.0885	6.7136	53.8958
1998	7.0000	3.0950	-	10.0950	6.0000	26.0000	-	5.0885	6.7136	53.8971
1999	7.0000	3.0880	-	10.0880	6.0000	25.9947	-	5.0707	6.6550	53.8084
2000	7.0000	3.0859	-	10.0859	6.0000	25.9947	-	5.0466	6.6256	53.7528
2001	7.0000	3.0792	-	10.0792	6.0000	25.0000	2.4000	5.0075	6.5799	55.0666
2002	7.0000	3.0786	-	10.0786	6.0000	25.0000	2.4000	5.9633	6.6957	56.1376
2003	7.5000	2.5774	-	10.0774	5.0000	25.0000	2.4000	5.9617	6.7957	55.2348
2004	8.5000	2.5768	-	11.0768	6.0000	25.0000	2.4000	5.9617	6.7957	57.2342
2005	8.5000	2.5755	-	11.0755	6.0000	25.0000	2.4000	5.9617	6.7757	57.2129

(a) Prior to 2001, the millage for libraries was included under the school district millages.

(b) Includes tax millages for the Muskegon Area Intermediate School District and for Muskegon Community College.

(c) Includes the general County tax millage and the special millages for the Muskegon County Museum and veteran's programs.

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent Of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Charge backs				Outstanding Delinquent Specific	Percent of Delinquent Taxes to Levy
						On Uncollected Delinquent Taxes	Outstanding Delinquent Personal	Outstanding Delinquent Specific	Percent of Delinquent Taxes to Levy		
1996	\$ 6,650,150	\$ 5,727,915	86.1%	\$ 867,946	\$ 6,595,861	\$ -	\$ 27,325	\$ 3,427	0.46%		
1997	6,814,119	5,983,967	87.8%	556,509	6,540,476	-	109,199	13,197	1.80%		
1998	6,793,669	6,074,967	89.4%	371,432	6,446,399	-	65,466	4,526	1.03%		
1999	6,925,862	6,185,473	89.3%	632,875	6,818,348	46,219	89,309	10,148	2.10%		
2000	7,378,653	6,631,358	89.9%	382,839	7,014,197	47,117	60,847	7,845	1.57%		
2001	7,449,191	6,625,670	88.9%	88,768	6,714,438	24,866	184,894	5,496	2.89%		
2002	7,922,898	7,036,846	88.8%	123,906	7,160,752	30,056	168,666	15,700	2.71%		
2003	8,095,194	7,201,599	89.0%	710,353	7,911,952	27,338	154,843	20,856	2.51%		
2004	8,292,451	7,230,231	87.2%	772,545	8,002,776	36,179	82,305	22,655	1.70%		
2005	8,121,734	6,920,960	85.2%	1,027,932	7,948,892	28,156	78,641	21,100	1.57%		

SOURCE: City of Muskegon Treasurer' Office

City of Muskegon

SPECIAL ASSESSMENT LEVIES AND COLLECTIONS

As of December 31, 2005

Year Levied	Amount of Original Assessment	Amount Collected to Date	Outstanding Balance	Percent Uncollected
Prior	\$ -	\$ -	\$ -	0.00%
1996	754,169	754,169	-	0.00%
1997	643,472	605,171	38,301	5.95%
1998	558,019	508,919	49,100	8.80%
1999	661,020	562,929	98,091	14.84%
2000	1,152,324	939,324	213,000	18.48%
2001	921,585	662,063	259,522	28.16%
2002	778,405	394,654	383,751	49.30%
2003	2,404,529	494,232	1,910,297	79.45%
2004	384,559	172,196	212,363	55.22%
2005	527,217	126,659	400,558	75.98%
Spread to taxes	-	-	403,191	n/a
Total	\$ 8,785,299	\$ 5,220,316	\$ 3,968,174	45.17%

SOURCE: City of Muskegon Treasurer's Office

City of Muskegon

STATEMENT OF BONDED INDEBTEDNESS

December 31, 2005

Bond Issue	Year Issued	Average Interest Rate (%)	Amount of Issue	Outstanding Balance	Principal Due 2006	Interest Due 2006	Final Maturity
City of Muskegon MTF Bonds	1997	4.290	\$ 1,950,000	\$ 470,000	\$ 230,000	\$ 19,860	2007
City of Muskegon MTF Bonds - Refunding	2002	2.844	2,245,000	1,175,000	385,000	28,500	2008
Muskegon County Wastewater Contract - Refunding	2002	3.281	6,990,000	3,146,478 (a)	1,058,767	157,324	2008
Special Assessment Improvement (Sidewalks)	1998	4.034	1,495,000	450,000	165,000	14,700	2009
State of Michigan Urban Land Assembly Loan	1999	0.000	1,276,900	826,900	150,000	-	2009
Special Assessment Improvement (Sidewalks)	2000	5.114	825,000	415,000	85,000	17,951	2010
Water Supply System Revenue Bonds	1993	5.430	5,465,000	900,000	-	40,500	2013
State of Michigan Urban Land Assembly Loan	2005	0.000	700,000	456,076	20,000	-	2015
Installment Purchase Contract - Firetrucks	2005	3.830	605,824	605,824	49,785	22,250	2015
Capital Improving Bonds	2003	3.620	1,575,000	1,365,000	105,000	45,524	2016
DDA Refunding Bonds	2001	4.680	4,005,000	3,305,000	200,000	145,492	2018
DDA Promissory Note with Muskegon County	1989	0.000	1,000,000	1,000,000	-	-	2019
Water Supply System Revenue Bonds	1999	4.570	9,575,000	7,590,000	455,000	326,899	2019
Drinking Water State Revolving Fund (DWSRF) Loan	2004	2.125	13,900,000	13,900,000	565,000	295,375	2025
Muskegon County Wastewater Contract - State Revolving Loan	2005	1.125	17,500,000	459,539 (a)	-	-	2024
Local Development Finance Authority Bonds (Smartzone)	2002	4.552	4,725,000	4,725,000	-	205,147	2025
			<u>\$ 73,832,724</u>	<u>\$ 40,789,817</u>	<u>\$ 3,468,552</u>	<u>\$ 1,319,522</u>	

(a) Estimated City's Share of Debt.

SOURCE: City of Muskegon Finance Department

City of Muskegon

STATEMENT OF LEGAL DEBT MARGIN (a)

December 31, 2005

State Equalized Valuation (SEV): **\$ 762,527,379 (b)**

Legal Debt Margin				
	Actual Net Debt	Maximum Percent of SEV	Debt Limit Amount	Legal Debt Margin
Outstanding Debt Subject to Limitation	<u>\$ 9,918,800</u>	<u>10.000%</u>	<u>\$ 76,252,738</u>	<u>\$ 66,333,938</u>
Outstanding Debt Not Subject to Limitation:				
Special Assessment Debt	2,230,000			
Revenue Bonds	23,390,000			
Michigan Transportation Fund Bonds	1,645,000			
Debt Issued for Pollution Abatement	<u>3,606,017</u>			
	<u>30,871,017</u>			
TOTAL INDEBTEDNESS	<u><u>\$ 40,789,817</u></u>			

(a) Act 279, Public Acts of Michigan, 1909, as amended, and the City Charter of the City provide that the net indebtedness of the City shall not exceed 10% of all assessed real and personal property in the City. Bonds which are not included in the computation of legal debt margin, according to Act 279, are:

- Special Assessment Bonds;
- Mortgage Bonds;
- Michigan Transportation Fund Bonds;
- Revenue Bonds;
- Bonds issued, or contracts or assessment obligations, incurred, to comply with an order of the Water Resources Commission or a court of competent jurisdiction;
- Bonds issued to acquire housing for which rent subsidies will be received under a contract with the United States Government;
- Obligations entered into under an intergovernmental self insurance contract or issued to pay premiums or to establish funds to self insure for losses;
- Bonds issued or assessments or contract obligations incurred for the construction, improvement, or replacement of a combined sewer overflow abatement facility;
- Other obligations incurred for water supply, sewage, drainage or other refuse, disposal projects necessary to protect the public health by abating pollution; and,
- Resources of a sinking fund pledged for the retirement of any outstanding bonds

(b) State Equalized Valuation (SEV) does not include assessments under the Industrial Facilities Tax (IFT), Commercial Facilities Tax (CFT), Neighborhood Enterprise Zone (NEZ), Commercial Enterprise Zone (CEZ), or Renaissance Zone (REZ) exemption programs which for 2005 amounted to \$69,398,499. The City's total 2005 assessed valuation (including IFT/CFT/NEZ/CEZ/REZ) was \$831,925,878.

SOURCE: Muskegon County Equalization Department and Finance Department

City of Muskegon

STATEMENT OF DIRECT AND OVERLAPPING DEBT

December 31, 2005

Direct Debt:

Revenue Bonds	\$ 22,390,000
Special Assessment Bonds	2,230,000
Intergovernmental Bonds	4,888,993
Michigan Transportation Fund Bonds	1,645,000
Act 99 Installment Purchase	605,824
Component Unit Debt	<u>9,030,000</u>
	40,789,817

Less:

Revenue Bonds and Revenue Supported Intergovernmental Bonds	\$ 23,390,000	
Michigan Transportation Fund Bonds	1,645,000	
Special Assessment Debt	<u>2,230,000</u>	27,265,000
NET DIRECT DEBT		13,524,817

Overlapping Debt:

	Debt Outstanding at 12/31/2005	% of SEV Within City	City Share of Debt Outstanding	
Muskegon School District	\$ 33,593,999	94.76%	\$ 31,833,673	
Orchard View School District	45,923,407	28.01%	12,863,146	
Reeths-Puffer School District	69,338,068	9.34%	6,476,176	
Muskegon Community College	18,655,000	16.74%	3,122,847	
County of Muskegon	<u>22,350,000</u>	16.74%	<u>3,741,390</u>	
	\$ 189,860,474		\$ 58,037,232	58,037,232

NET DIRECT AND OVERLAPPING DEBT \$ 71,562,049

	Per Capita Debt (a)	Ratio of Debt to SEV (b)
Net Direct Debt	\$ 337.24	1.77%
Net Direct and Overlapping Debt	\$ 1,784.37	9.38%

(a) Population equals 40,105.

(b) State equalized valuation (SEV) equals \$ 762,527,379

SOURCE: City of Muskegon Finance Department; Municipal Advisory Council of Michigan

City of Muskegon

**RATIO OF DEBT SERVICE FOR GENERAL BONDED DEBT
TO TOTAL GENERAL FUND EXPENDITURES AND OTHER USES**

Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Contractual Debt	Total		Total General Fund Expenditures and Other Uses	Ratio of Debt Service to General Fund Expenditures and Other Uses
				Debt	Service		
1996	\$ 185,000	\$ 58,696	\$ 141,245	\$ 384,941	\$	18,018,159	2.14%
1997	200,000	86,102	220,216	506,318		20,358,320	2.49%
1998	260,000	77,712	201,572	539,284		21,634,467	2.49%
1999	265,000	65,362	125,825	456,187		22,011,881	2.07%
2000	270,000	52,346	78,971	401,317		22,232,657	1.81%
2001	280,000	38,726	45,741	364,467		23,235,978	1.57%
2002	185,000	24,406	-	209,406		23,971,536	0.87%
2003	195,000	17,006	-	212,006		23,705,334	0.89%
2004	205,000	8,816	-	213,816		23,388,020	0.91%
2005	-	-	-	-	-	23,658,227	0.00%

SOURCE: City of Muskegon Finance Department

City of Muskegon
REVENUE BOND COVERAGE
Sewage Disposal System

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements		
				Principal	Interest	Total Coverage
1996	\$ 2,940,704	\$ 2,468,476	\$ 472,228	\$ 285,725	\$ 385,367	\$ 671,092 0.70
1997	3,295,954	2,390,240	905,714	242,480	343,261	585,741 1.55
1998	3,790,903	2,355,408	1,435,495	515,185	261,692	776,877 1.85
1999	3,740,179	2,417,775	1,322,404	495,963	237,636	733,599 1.80
2000	4,089,381	2,236,111	1,853,270	421,516	216,776	638,292 2.90
2001	3,991,295	2,656,382	1,334,913	399,933	197,169	597,102 2.24
2002	4,039,448	2,726,975	1,312,473	458,918	137,622	596,540 2.20
2003	4,077,482	2,649,454	1,428,028	473,329	132,214	605,543 2.36
2004	4,096,412	3,038,939	1,057,473	455,179	110,520	565,699 1.87
2005	4,182,115	3,128,119	1,053,996	522,956	114,388	637,344 1.65

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net assets or by transfer in.

(a) "Gross Revenue" equals total operating revenues plus interest income.

(b) "Direct Operating Expenses" equal total operating expenses net of depreciation expense.

SOURCE: City of Muskegon Finance Department

City of Muskegon
REVENUE BOND COVERAGE
Water Supply System

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (a)	Direct Operating Expenses (b)	Net Revenue Available For Debt Service	Debt Service Requirements		
				Principal	Interest	Total Coverage
1996	\$ 3,208,207	\$ 2,105,342	\$ 1,102,865	\$ 100,000	\$ 306,169	406,169 2.72
1997	3,478,112	2,115,442	1,362,670	150,000	296,989	446,989 3.05
1998	3,083,359	2,096,426	986,933	150,000	285,257	435,257 2.27
1999	3,579,929	2,463,597	1,116,332	215,000	409,391	624,391 1.79
2000	3,936,337	2,576,864	1,359,473	350,000	494,206	844,206 1.61
2001	4,263,107	3,203,080	1,060,027	370,000	471,301	841,301 1.26
2002	4,051,015	3,030,959	1,020,056	390,000	453,666	843,666 1.21
2003	4,183,015	3,539,690	643,325	405,000	417,559	822,559 0.78
2004	5,016,267	3,186,067	1,830,200	420,000	411,867	831,867 2.20
2005	7,017,844	3,197,232	3,820,612	435,000	418,549	853,549 4.48

For years in which "revenue bond coverage" is less than 1.00, the shortfall was made up either by use of net assets or by transfer in.

(a) "Gross Revenue" equals total operating revenues plus interest income.

(b) "Direct Operating Expenses" equal total operating expenses net of depreciation expense.

SOURCE: City of Muskegon Finance Department

City of Muskegon

RATIO OF NET BONDED DEBT TO ASSESSED VALUE

NET BONDED DEBT PER CAPITA

Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value (1)	Gross Bonded Debt	Less Debt Service Funds	Payable From Enterprise Revenues and Assessments	Net Bonded Debt	Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1996	40,283	\$ 574,549,100	\$ 37,014,462	\$ 1,946,649	\$ 27,111,865	\$ 7,955,948	1.4%	\$ 197.50
1997	40,283	603,484,900	35,001,068	2,199,516	26,050,247	6,751,305	1.1%	167.60
1998	40,283	614,982,400	35,483,833	1,918,272	25,786,747	7,778,814	1.3%	193.10
1999	40,283	676,710,100	39,169,600	2,407,563	30,160,507	6,601,530	1.0%	163.88
2000	40,283	724,062,800	36,697,731	2,974,730	27,387,710	6,335,291	0.9%	157.27
2001	40,105	812,923,900	32,429,103	981,748	21,797,203	9,650,152	1.2%	240.62
2002	40,105	826,017,850	34,024,914	250,798	19,623,014	14,151,102	1.7%	352.85
2003	40,105	839,041,112	31,778,823	153,955	19,266,923	12,357,945	1.5%	308.14
2004	40,105	829,339,617	37,220,322	-	25,798,422	11,421,900	1.4%	284.80
2005	40,105	831,925,878	40,789,817	-	29,831,841	10,957,976	1.3%	273.23

(1) See exhibit titled "Assessed and Estimated Actual Value of Taxable Property".

SOURCE: City of Muskegon Finance Department and Muskegon County Equalization Department

City of Muskegon

PROPERTY VALUES, CONSTRUCTION ACTIVITY AND BANK DEPOSITS

Last Ten Fiscal Years

Year	New Construction				Repairs and Additions				Estimated Property Values			
	Industrial and Commercial		Residential		Industrial and Commercial		Residential		Residential		Non Residential	
	Permits	Value	Permits	Value	Permits	Value	Permits	Value	Value	\$	\$	\$
1996	10	\$11,208,589	30	\$ 2,540,100	76	\$ 8,460,306	895	\$ 2,371,656	1011	\$ 24,580,651	\$ 420,036,700	\$ 592,273,500
1997	9	6,081,963	24	2,266,142	105	14,564,170	705	2,658,001	843	25,570,276	440,078,000	628,265,800
1998	12	8,192,401	56	4,598,023	186	10,159,958	729	2,319,745	983	25,270,127	475,647,400	610,081,800
1999	11	3,659,209	53	4,386,560	136	8,660,948	686	2,206,456	886	18,913,173	526,466,800	661,855,000
2000	16	11,827,076	70	6,853,824	124	18,374,394	649	2,439,629	859	39,494,923	591,609,562	856,516,038
2001	8	3,736,102	37	14,035,551	101	5,021,890	747	3,259,006	893	26,052,549	675,090,378	950,757,422
2002	6	3,696,711	72	17,619,093	125	14,849,768	805	3,539,602	1008	39,705,174	718,824,700	933,211,000
2003	4	1,720,000	45	4,921,925	154	10,695,552	858	4,032,068	1061	21,369,545	776,050,245	912,715,275
2004	7	1,241,000	38	4,686,880	106	27,526,374	1001	4,508,821	1152	37,963,075	777,025,799	890,774,234
2005	4	2,735,505	41	5,525,790	160	18,011,656	761	3,768,074	966	30,041,025	799,013,198	873,037,397

NOTE: Due to bank mergers, local bank deposit information is not readily available.

SOURCE: City Inspections Department and City Assessor's Office/Muskegon County Equalization Department

City of Muskegon

DEMOGRAPHIC STATISTICS

December 31, 2005

DATE OF INCORPORATION

As Village	July 8, 1861
As City of Fourth Class	March 27, 1869
As Home Rule City	October 6, 1919

FORM OF GOVERNMENT

Commission-Manager

AREA

18.99 square miles

MILES OF STREETS

196.95

NUMBER OF STREETLIGHTS

3,159

FIRE PROTECTION

Number of stations	3
Number of firefighter and officer positions	41

POLICE PROTECTION

Number of stations	1
Number of sworn officer positions	76

WATER SERVICE

Number of consumers	14,455
Average daily consumption	9,582,000 gallons per day
Water mains	194.14

SEWER SERVICE

Sanitary sewers	179.41 miles
Storm sewers	179.23 miles

LEISURE SERVICES

Number of parks	64 (701 acres)
Lake Michigan beaches	119 acres

FULL-TIME POSITIONS

Classified service	253
Exempt (management)	16
Total	269

ELECTIONS

Number of registered voters	26,061
Number of votes cast:	
Last general election	4,029
Last city election	4,029
Percentage of registered voters voting:	
Last general election	15%
Last city election	15%

City of Muskegon

DEMOGRAPHIC STATISTICS

December 31, 2005

POPULATION

2000 Census	40,105
1990 Census	40,283
1980 Census	40,823
1970 Census	44,631

MEDIAN AGE

32.3

AGE DISTRIBUTION

Under 18 years	10,340
18-65 years	24,788
65 years and over	4,977

RACE AND ORIGIN

White	24,309
Black	12,701
American Indian, Eskimo, or Aleut	418
Asian or Pacific Islander	195
Hispanic	1,078
Other	1,404

HOUSING UNITS

Total units	16,019
Owner occupied	8,070
Renter occupied	6,700
Vacant	1,249

HOUSEHOLDS BY TYPE

Total households	14,569
Families	8,535
Nonfamily households	6,034

ESTIMATED HOUSEHOLD INCOME

\$75,000 or more	5.0%
\$50,000 to \$74,999	8.0%
\$35,000 to \$49,999	13.0%
\$25,000 to \$34,999	18.0%
\$15,000 to \$24,999	22.0%
\$7,500 to \$14,999	26.0%
Under \$7,500	8.0%

FIVE LARGEST EMPLOYERS

Mercy General Hospital	2,017
Hackley Hospital	1,300
Muskegon County	1,200
Muskegon Public Schools	1,105
ADAC	597

OCCUPATION

White Collar	48.0%
Blue Collar	52.0%

City of Muskegon

DEMOGRAPHIC STATISTICS

December 31, 2005

UNEMPLOYMENT RATE (CITY)

1996	8.1%
1997	6.6%
1998	5.8%
1999	6.2%
2000	6.1%
2001	9.3%
2002	12.1%
2003	13.9%
2004	11.1%
2005	9.0%

EDUCATION LEVEL

High School Diploma or Higher	68.7%
College Degree or Higher	8.2%

MUSKEGON PUBLIC SCHOOL ENROLLMENT

1996-1997	7,022
1997-1998	7,116
1998-1999	6,954
1999-2000	6,788
2000-2001	6,761
2001-2002	6,603
2002-2003	6,327
2003-2004	6,088
2004-2005	5,862
2005-2006	5,625

SOURCES: City of Muskegon Operating Departments, U.S. Census Bureau, Muskegon Area Intermediate School District, Michigan Department of Career Development.

**City of Muskegon
LABOR AGREEMENTS
December 31, 2005**

	<u>Expiration</u>	<u>Members</u>
Muskegon Firefighters AFL-CIO Local #370 Firefighters	12/31/2007	39
Command Officers Association of Michigan Police Command Officers	12/31/2006	12
Police Officers' Labor Council Police Patrol Officers	12/31/2006	61
Service Employees International Union Parks & DPW Employees	12/31/2004	76
Clerical Employees	12/31/2008	27

SOURCE: City of Muskegon Finance Department

City of Muskegon

SCHEDULE OF INSURANCE IN FORCE

December 31, 2005

Type of Coverage	Policy Period		Annual Premium	Details of Coverage	Liability Limits
	From	To			
<u>Coverages Provided Through the Michigan Municipal Risk Management Authority (MMRMA):</u>					
			\$ 875,922	Total Premium for all MMRMA Coverages	
AUTO FLEET (PHYSICAL)	3/1/2005	2/28/2006		Auto and Fleet Insurance	Comprehensive: Actual Cash Value/\$1000 Deductible Collision: Actual Cash Value/\$1,000 Deductible
BOILER & MACHINERY	3/1/2005	2/28/2006		Boiler and Machinery	\$500,000 Limit per Accident
EMPLOYEE BLANKET BOND	3/1/2005	2/28/2006		Honesty & Faithful Performance	Honesty Blanket Bond: \$400,000 Faithful Performance Bond: \$100,000
CITY PROPERTY	3/1/2005	2/28/2006		Fire and building contents	Building and contents valued at \$56,867,715; \$5,000 deductible
LIABILITY COVERAGES	3/1/2005	2/28/2006		General Liability Police Liability Auto Liability Public Officials' Liability	\$15,000,000 per occurrence; \$100,000 retention
INLAND MARINE	3/1/2005	2/28/2006		City owned contractors equipment	Contractors Equipment \$1,600,850
<u>Coverages Provided Through Other Insurers:</u>					
FIDUCIARY LIABILITY Stewart Smith/McAlear Associates (Jerviss Fethke)	3/1/2005	2/28/2006	6,900	Fiduciary Liability Coverage for Members of Retirement System Boards	\$1,000,000 per occurrence; \$10,000 deductible
WORKERS' COMPENSATION Michigan Municipal League Workers' Compensation Fund	7/1/2005	6/30/2006	276,061	Work related injuries and illnesses	As determined by state law
STORAGE TANK LIABILITY Zurich Insurance Co. (IBEX)	2/24/2005	2/23/2006	350	City owned storage tanks	\$1,000,000 each occurrence \$1,000,000 annual aggregate

SOURCE: City of Muskegon Finance Department

City of Muskegon

SALARIES OF PRINCIPAL OFFICIALS

December 31, 2005

Position	Salary Range	
	From	To
Mayor	\$	7,500
City Commissioners		6,000
City Manager		115,048
<u>Range I</u>	70,021	93,362
Director of Public Safety		
Assistant City Manager		
Finance Director		
Public Works Director		
<u>Range II</u>	60,444	80,592
Community & Economic Development Director		
<u>Range II-B</u>	57,906	77,136
Deputy Director of Public Works		
<u>Range III</u>	55,370	73,678
City Clerk		
City Treasurer		
Information Systems Director		
Civil Service Director		
Deputy Public Safety Director		
<u>Range IV</u>	47,696	63,593
Assistant Finance Director		
Income Tax Administrator		
<u>Range V</u>	45,651	60,871
Affirmative Action Director		
Community & Neighborhood Services Director		
Water Filtration Plant Supervisor		

SOURCE: City of Muskegon Finance Department

SINGLE AUDIT REPORTS AND DOCUMENTS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

March 10, 2006

City Commission
City of Muskegon
Muskegon, MI

We have audited the financial statements of the City of Muskegon as of and for the year ended December 31, 2005 and have issued our report thereon dated March 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Muskegon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Muskegon's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as Finding 1 in Part B of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

City Commission
March 10, 2006
Page 2

Compliance

As part of obtaining reasonable assurance about whether the City of Muskegon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

March 10, 2006

City Commission
City of Muskegon
Muskegon, MI

Compliance

We have audited the compliance of the City of Muskegon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. The City of Muskegon's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Muskegon's management. Our responsibility is to express an opinion on the City of Muskegon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Muskegon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Muskegon's compliance with those requirements.

In our opinion, the City of Muskegon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

City Commission
March 10, 2006
Page 2

Internal Control Over Compliance

The management of the City of Muskegon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Muskegon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2005

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2005	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2005	Adjustments	Note
<i>U.S. Department of Housing and Urban Development</i>								
Direct programs								
Community Development Block Grant	14.218							
B-04-MC-26-0026		\$ 1,212,000	\$ 222,477	\$ 1,048,017	\$ 825,540	\$ -	-	
B-05-MC-26-0026		1,137,297	-	119,715	464,859	345,144	-	
Program Income		59,930	-	59,930	59,930	-	-	
Total Community Development Block Grant		2,409,227	222,477	1,227,662	1,350,329	345,144	-	
Direct programs								
Home Investment Partnership Program	14.239							
M-94-MC-26-0215		500,000	-	7,500	7,500	-	-	
M-96-MC-26-0215		454,000	75	75	-	-	-	
M-97-MC-26-0215		444,000	63	30,771	30,708	-	-	
M-99-MC-26-0215		514,000	-	8,677	8,677	-	-	
M-00-MC-26-0215		514,000	145,876	219,175	73,299	-	-	
M-01-MC-26-0215		572,000	-	347,609	347,609	-	-	
M-02-MC-26-0215		133,342	-	5,497	5,497	-	-	
M-03-MC-26-0215		340,111	113,852	263,714	161,751	11,889	-	
M-04-MC-26-0215		337,937	69,279	267,254	200,360	2,385	-	
M-05-MC-26-0216		320,839	-	18,498	24,603	6,105	-	
Program Income		653,335	(292,766)	401,988	653,335	(41,419)	-	
Total Home Investment Partnership Program		4,783,564	36,379	1,570,758	1,513,339	(21,040)	-	
Total U.S. Department of Housing and Urban Development		7,192,791	258,856	2,798,420	2,863,668	324,104	-	
<i>U.S. Department of Justice</i>								
Passed through the Michigan Family Independence Agency								
Juvenile Justice Grant	16.548							
DP-05-61001		90,000	11,685	89,934	78,249	-	-	
DP-05-61001-2		70,000	-	-	13,535	13,535	-	
Total Juvenile Justice Grant		160,000	11,685	89,934	91,784	13,535	-	

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended December 31, 2005

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2005	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2005	Adjustments	Note
U.S. Department of Justice—Continued								
Passed through the Ottawa County WEMET Multi-Jurisdictional Drug Enforcement CO-OP	16.579							
70834-604B		\$ 43,937	\$ 13,148	\$ 43,937	\$ 30,789	\$ -	-	
70834-706B		36,825	-	-	11,046	11,046	-	
Total WEMET Multi-Jurisdictional Drug Enforcement CO-OP		80,762	13,148	43,937	41,835	11,046	-	
Direct programs								
Law Enforcement Block Grant	16.592							
2003-LB-BX-2769		47,639	(21,556)	-	21,556	-	-	
2004-LB-BX-1240		23,331	(23,331)	-	9,610	(13,721)	-	
Total Law Enforcement Block Grant		70,970	(44,887)	-	31,166	(13,721)	-	
Passed through Muskegon County United Way Weed and Seed	16.595							
2005-WS-Q5-0145		54,750	-	268	604	336	-	
Total U.S. Department of Justice		366,482	(20,054)	134,139	165,389	11,196	-	
U.S. Department of Transportation, Federal Highway Administration								
Passed through the Michigan Department of Transportation	20.205							
Highway Planning and Construction Program								
Proj STP0261 (338) Fed Item RR3506 Contract 03-5336		240,000	102,822	102,822	-	-	-	2
Proj STP0461 (308) Fed Item HH3843 Contract 04-5014		355,830	-	95,922	95,922	-	-	2
Proj STP0461 (311) Fed Item HH3958 Contract 04-5202		552,354	-	16,571	16,571	-	-	2
Proj STP0561 (017) Fed Item HH4267 Contract 05-5151		159,450	-	121,971	121,971	-	-	2
Proj STP0561 (021) Fed Item HH4292 Contract 05-5224		350,795	-	350,795	350,795	-	-	2
Total U.S. Department of Transportation, Federal Highway Administration		1,658,429	102,822	688,081	585,259	-	-	

City of Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended December 31, 2005

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue January 1, 2005	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue December 31, 2005	Adjustments	Note
Environmental Protection Agency								
Passed through Michigan Department of Environmental Quality								
Drinking Water State Revolving Fund	66.468	\$ 6,941,688	\$ -	\$ 2,441,638	\$ 2,441,638	\$ -	\$ -	
Project 7142-01								
U.S. Federal Emergency Management Administration								
Direct programs	83.554							
Assistance to Firefighters Grant Program		129,875	-	12,299	12,299	-	-	
EMW-2003-FG-11430		69,744	-	69,744	69,744	-	-	
EMW-2004-FG-09314		199,619	-	82,043	82,043	-	-	
Total U.S. Federal Emergency Management Administration								
U.S. Department of Health and Human Services								
Passed through Michigan Department of Social Services	93.585	2,947,368	11,153	223,947	217,075	-	(4,281)	3
Enterprise Community - Title XX Human Service Grant		\$ 19,306,377	\$ 352,777	\$ 6,368,268	\$ 6,355,072	\$ 335,300	\$ (4,281)	
EC/EZ-95-61001								
TOTAL FEDERAL ASSISTANCE								

Notes to Schedule of Expenditures of Federal Awards

1. See the notes to the financial statements for significant accounting policies used in preparing this schedule.
2. These programs are administered by the Michigan Department of Transportation (MDOT) and federal compliance reports of these programs are included in the single audit of MDOT.
3. The amount of the prior year receivable was reduced from \$11,153 to \$6,872 as a result of a write-off of part of the prior year accrual.
4. The following is a reconciliation of federal revenues as reported on page 36 of the City of Muskegon financial statements for the year ended December 31, 2005 and federal expenditures per the Schedule of Expenditures of Federal Awards.

Federal revenues per City of Muskegon financial statements for the year ended December 31, 2005 (page 36)	
General Fund	\$ 155,648
Major Street and Trunkline Fund	585,259
Other governmental funds	2,459,262
	<u>3,200,169</u>
Plus program income	713,265
Plus federal loans	<u>2,441,638</u>
Federal assistance expenditures and operating transfers out per Schedule of Expenditures of Federal Awards	<u>\$ 6,355,072</u>

City of Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended December 31, 2005

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Muskegon.
2. **One (1)** reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This reportable condition is not reported as a material weakness.
3. **No** instances of noncompliance material to the financial statements of the City of Muskegon were disclosed during the audit as reported in Part B of this schedule.
4. There were **no** reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Parts B and C of this schedule.
5. The auditors' report on compliance for the major federal award programs for the City of Muskegon expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Housing and Urban Development</i> Home Investment Partnership Program	14.239
<i>U.S. Department of Transportation</i> Highway Planning and Construction Program	20.205
<i>Environmental Protection Agency</i> Drinking Water State Revolving Fund Program	66.468
<i>U.S. Department of Health and Human Services</i> Enterprise Community - Title XX	93.585

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Muskegon was determined to be a low-risk auditee.

City of Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended December 31, 2005

**B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Questioned
Costs

COMPLIANCE

NONE

None

REPORTABLE CONDITIONS

Fiscal 2005 Finding No. 1: Construction Retainage Procedures

Condition: Retainage on construction contracts was not always recorded as a liability.

Effect: City obligations and construction costs could be understated.

None

Recommendation: The proper recording of construction retainage payables would increase the accuracy of the City's liability balances.

**C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD
PROGRAMS AUDIT**

COMPLIANCE

NONE

None

REPORTABLE CONDITIONS

NONE

None

CLIENT DOCUMENTS

933 Terrace Street
PO Box 536
Muskegon, MI 49443
Phone: (231) 724-6709

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

March 10, 2006

U.S. Department of Housing & Urban Development
Detroit, Michigan

The City of Muskegon respectfully advises you that there were ***no*** audit findings or questioned costs reported in our single audit report, dated March 7, 2005, for the year ended December 31, 2004.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Timothy J. Paul', is written over a light gray circular background.

Timothy J. Paul
Finance Director

CORRECTIVE ACTION PLAN

March 10, 2006

U.S. Department of Housing & Urban Development
Detroit, Michigan

The City of Muskegon respectfully submits the following Corrective Action Plan for the year ended December 31, 2005.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: December 31, 2005

The findings from the Schedule of Findings and Questioned Costs for the year ended December 31, 2005 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings.

REPORTABLE CONDITIONS

Fiscal 2005 Finding No. 1: Construction Retainage Procedures

Recommendation: The proper recording of construction retainage payables would increase the accuracy of the City's liability balances.

Action Taken: During the year ending December 31, 2006, City personnel will implement this recommendation.

U.S. Department of Housing & Urban Development
March 10, 2006
Page 2

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

There were *no* compliance findings in relation to major federal award programs.

REPORTABLE CONDITIONS

There were *no* reportable conditions in relation to major federal award programs.

If the U.S. Department of Housing & Urban Development has questions regarding this plan, please call Timothy J. Paul at (231) 724-6709.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Timothy J. Paul', with a large, stylized loop at the end.

Timothy J. Paul
Finance Director

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

March 10, 2006

City Commission
City of Muskegon
Muskegon, Michigan

In planning and performing our audit of the financial statements of the City of Muskegon for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Muskegon's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information of the City Commission, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REPORTABLE CONDITION

Recommendation 1: Retainage on construction contracts should be recorded as a payable at year end.

During our audit, we noted that retainage on construction contracts was not always recorded as a liability.

The proper recording of retainage payables would increase the accuracy of the City's liability balances.